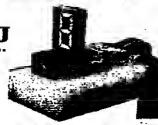


Britain and the EU Thinking the unthinkable

Martin Wolf, Page 13



Conductive plastics Chinese banking Discovery in need

of applications Technology, Page 10

Rebirth of the private sector



Executive benefits Wrong to reward

Peter Drucker, Page 12

downsizing

France calls for **G7-style group to** co-ordinate Emu

France proposed that governments signing up to the European single currency should form a club, similar to the Group of Seven of the world's richest industrial nations, to co-ordinate budgetary and economic policies. French finance minister Jean Arthuis said the third and final phase of European economic and monetary union, due to start on January 1 1999, required an "economic policy pole" that would stand alongside the planned European cen-tral bank to ensure economic stability. Page 14

N Ireland group warns of spread of IRA campaign

Northern Ireland terrorism threatened to spiral yesterday, with the Ulster Freedom Fighters, the largest Protestant paramilitary group, warning that it had put its operatives on full alert. It said it had come to the "considered view" that the IRA was preparing to follow Saturday's Manchester bomb-ing, in which 200 people were injured, by resuming its campaign of violence in Ulster. Page 14; US considers harder line on Adams, Page 8

Lufthansa shares fall 5%: Shares in German airline Lufthansa fell almost 5 per cent after its warning of unsatisfactory business this year was seen as signalling a large loss for the six-months to the end of June. Page 15; Lex. Page 14

EU to start 'open sides' talks: Europe Union transport ministers gave approval for the European Commission to launch negotiations with Washington on a European Union-US "open skies" agreement to liberalise civil aviation. Page 5

damped hopes of an early resumption of German economic growth, with a cautious assessment that sighted "rays of hope" but saw no clear indications of a breakthrough. Page 2

Wait Disney is to halve its film output in what is seen as a significant step by Hollywood to bring supply, demand and quality of movies into line with market needs. Page 15; Lex. Page 14

In-fighting delays Israeli cabinet decisions Israeli prime minister-elect Benjamin Netanyahu secured parliamentary majority needed to support his rightwing government but a power struggle within his Likud party prevented him from naming his cabinet. Page 14

Deutsche Babcock, the German engineering group struggling to restructure its loss-making activities, warned it expected annual losses of up to DM300m (\$197m). Page 17; Lex, Page 14

erian parties need 1m members: Political parties which want to be recognised by Nigeria's military government need to have more than 1m members, according to rules to help launch multi-party politics. Page 7

House has reacted furiously to leaks of the Senate Whitewater committee report that its Republican majority is to make public today, Page 6

Trade surplus falls 60%: Japan's trade surplus fell by 60.5 per ceut to Y231.69bn (\$2.13bn) in the year to May helped by rising domestic demand for

Disarmament group admits Iraq: Iraq and 22 other countries were formally accepted into the international Conference on Disarmament after a compromise deal to end a three-year stand-off over

Japan leads in aid donations: The US fell to fourth place behind Japan, France and Germany in non-military aid donations in 1995, the OECD said. Japan gave \$14.5bn of aid and the US \$7.3bn. Britain was sixth with \$3.2bn. Page 7

NZ voicano erupts: New Zealand's Mount Ruapehu volcano erupted spectacularly (below), sending steam and ash miles into the sky above the North Island. No one was hurt, but aviation authorities declared a danger zone around the area.



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Bank of Japan opens probe into record \$1.8bn loss ■ Copper closes unchanged | Late deal

Sumitomo shares fall 16.5%

TUESDAY JUNE 18 1996

By William Dawkins and Emilio Terazono in Tokyo and Clay Harris In London

Sumitomo Corporatico lost about a sixth of its stock market value yesterday as the Bank of Japan launched an investigation into the company's record \$1.8bn loss on unauthorised copper dealing. Copper closed unchanged at \$1,980 a tonne on the London Metal Exchange after earlier falling in Asian markets to between \$1,800 and \$1,840, its lowest level

since February 1994. The London Clearing House said it would repay about \$300m to LME member firms as a result of an increase in initial margin the deposit required to make a trade - from today.

Tokyo, closing Y200 lower at Y1,010. Mining shares and those of other Japanese trading compa-nies involved in copper trading also fell, but by only a fraction of the decline at Sumitome. The central bank is in contact with financial institutions doing business with Sumitomo and

with foreign monetary authorities, an official said. He believed there was no chance of credit risk spreading to financial institutions linked to the group, including its main bank, Sumitomo Bank. Sumitomo will this morning

face investment institutions in Tokyo in an attempt to repair the damage to its credibility. It is not expected to divulge any new

"Wild ride" awaited ,

Moody's became the second credit rating agency - after Stan-dard and Poor's on Friday - to downgrade Sumitomo's debt. Mr Shinji Okabe, vice-president of Moody's Japan, said he would reexamine trading companies' risk management systams although he was confident that existing ratings were sound.
Metal dealers in Tokyo voiced

disbelief at Sumitomo's claim that the trader concerned, Mr Yasuo Hamanaka, was the only one to know about the unauthor-

ised trades.

Dealers at two other trading

the help of Mr Hamanaka's superiors and with outside compa-

The Loodon Metal Exchange warned Sumitomo twice, in 1991 and 1993, that Mr Hamanaka was carrying out fictitious transactions, but internal company inquiries failed to detect them, according to the Nihon Keizai Shimbun economic daily.

Sumitomo is regulated by the
Ministry of International Trade

and industry. The Bank of Japan also has responsibility to watch for any secondary losses to finan-cial institutions. A Miti official said there was no evidence that Japanese law had been infringed.

that size - up to Y2,000km per subject of two investigations in year according to Sumitomo - could only have taken place with the Serious Fraud Office and the City of London police and a regulatory probe co-ordinated by the Securities and Investment Board the country's chief financial watchdog - in co-operation with Japanese authorities and the US Commodity Futures Trading

> Sumitomo was not regulated in the UK, being neither a member of the LME nor a firm authorised by the Securities and Futures Authority, both of which report to the SIB.

> Half of all UK dealings in copper derivatives involve non-traded contracts outside the LME, and are not subject to

EU spells out deal to end UK beef ban action

By Lionel Barber in Rome and George Parker in London

Britain faced mounting pressure yesterday to abandon its policy of non-co-operation in Europe and accept a face-saving deal to end the beef crisis in time for the European Union summit in Flor-

ence on Friday.

At a pre-summit meeting in Rome, EU foreign ministers and the European Commission spelled out stark terms for the lifting of the worldwide ban on British beef exports impos because of fears of BSE, or mad

The jerms – especiel to be set out in a European Commission paper today - offer no quarter to British demands for an early lifting on the embargo of British

beef to non-EU countries.
In a further blow to Mr John Major, UK prime minister, France called for a heavier cull of cattle suspected of carrying BSE, beyond the 80,000 proposed by

eign secretary, appearing after a

three-hour bargaining session over beef; looked visibly downbeat when assessing the pros-pects for a deal in Florence.

Downing Street said last night

it would look at any proposal to increase the extent of the cull "dispassionately"; but warned that Britain would only agree if it was justified by scientific advice.
One week after being mauled by his European colleagues in Luxembourg, Mr Rifkind again faced angry calls for Britain to scrap its policy of blocking EU business.

Mr. Jacques Santer, EC president said there was no question of a political fix of a specific timetable to end the EU ban on British beef exports. The issue had to be settled on the hasis of scientific facts and rigorous controls to eradicate BSE in Britain. UK-ministers are sceptical

about the scientific objectivity of EU veterinary officials. But as Mr Rificial indicated, the Commis-sion's emphasis on science could been that EU governments

helps US and China avert trade war

By Tony Walker in Beljing and Jurek Martin in Washington

The US and China yesterday reached a last-minute agreement on curbing the abuse of intellectual research and the state of tual property rights, averting threatened "tit-for-tat" trade sanctions on billious of dollars worth of goods. Under the agreement, bam-

mered out over months of diffi-cult negotiations, Beijing will strengthen enforcement against piracy and open the way for co-production deals with US record

puter software producers.
US President Bill Clinton hailed the pact as "good for American jobs and American businesses" and industry leaders welcomed the breakthrough.

US negotiators made improved market access for US producers of information and eutertainment products a key element of the agreement. They had also insisted on specific and verifi-able-measures to combat wide-spread counterfeiting of compact

spread counteresting or an undarstanding was not reached by yesterday on imple-mentation of a February 1995 agreement to curb phracy. China threatened counter-sanctions.

Ms Charlene Barshefsky, the acting DS frade representative, who met President Jiang Zemin after concluding the negotiations, said the deal was "evi-dence of a desire to ensure that the bilateral relationship is, and

remains, mutually beneficial".

- However, she also accused Xin-hua, ... China's - official - news agency, of "massive violation" of intellectual property rights in its attempt to regulate the distribution of economic information by

western news agencie The latest negotiations were prompted by US objections that China was not enforcing an accord reached early last year to crack down on copyright piracy.

Among the main points of yes-

Best of difficult task. Page 5

Yeltsin and presidential rival woo defeated poll candidates

Israeli PM-elect Benjamin Netanyahu (left) and maverick rightwing politician David Levy in talks as the Likud leader attempted to finalise details of his cabinet. Report, Page 14; Sweeping reforms, Page 7

By Chrystia Freeland and John Thombill in Moscow

vesterday kicked off the second stage of his country's election the support of some of the defeated presidential candidates nists out of the Kremlin. Mr Yeltsin, who polled 34.8 per

cent of the vote in Sunday'a ballot, faces a second round run-off against Mr Gennady Zyuganov, the Communist leader who won 32.1 per cent. Yesterday, Mr Yelt-sin met Mr Alexander Lebed, the former army general who has become Russia's most courted politician after his third place

Kremlin aides said the two politicians discussed "ways of possi-ble co-operation" and senior presthat Mr Lebed would be offered a

leading post in government. But Mr Lebed, who was supported by 14.7 per cent of voters,

Mr Zyuganov urged the retired officer to join his camp and predicted that no matter what political moves Mr Lebed made over the next few days, many of his voters would swing behind the Communists. "Whatever hapgo to the national-patriotic bloc," said Mr Zyuganov, who campaigned on a strongly nationalist platform. "This is inevitable as they voted for Lebed's ideology.

By spirit and character they are very close to us."

Both leading candidates also appear keen to woo Mr Grigory. Yavlinsky, the leader of the lib-eral Yabloko grouping who came fourth with 7.4 per cent.

Western governments seemed relieved by the results.

Arts Guide

US President Bill Clinton said: "This is a very significant thing for Russia to have this election Tha Russian people are to be complimented and the Russian leadership is to be complimented for supporting the constitution

Russia's nascent financial mar-kets reacted warmly to Mr Yeltyields on government bonds fell from their recent yearly highs.

of research at the Moscow-based United City Bank, said: "Local very strongly this morning but the western demand failed to materialise and the market came off a bit later in the day. Investors are unlikely to stampede into the market on a slim two-

Mr Yeltsin appears anxious to maximise voter turnout and made a bid to shift the date for the run-off to Wednesday, July 3. The Kremlin is eager to change the date because it fears the usual weekend exodus of wealthy Russians to their summer dachas could help the Communists.

And so to Lebed, Page 12 Editorial Comment and

No incentives, no good sites, no space and no decent football. It's tough down south.

John Thornhill finds pointers to election's next stage in the results of the first

n his youth Mr Boris Yeltsin played a dangerous game which he claims taught him an invaluable lesson in boldness of purpose and fleetness of foot.

As lumberjacks floated felled tree-trunks down a nearby river, Mr Yeltsin and his more reckless friends would cross the stream by leaping from log to log. If you hesitated too long a log would spin over and toss you into the water, Mr Yeltsin recalled in his memoirs. The secret was to keep moving and never fear the consequences of a badly-executed step.

Casting aside his years, Mr Yeltsin seems to have recovered much of that former egility and endacity in conducting his re-election campaign, visifing 24 cities in less than four months.

Even before the final results of the first round of voting had been published, Mr Yeltsin had already moved to open talks with his defeated rivals to build support for the second round contest against Mr Gannady Zyuganov, the Communist party challenger. to be held next month.

Despite winning the bigg share of the votes in the first round, Mr Yeltsin-has a battle on his hands to secure his ultimate victory and must reach out to build a broader As had been widely forecast,

Mr Yeltsin picked up strong support in the wealthy industrial and oil regions and the big cities which have mos In prosperous Moscow he

won more than 60 per cent of the vote at the same time as his political ally Mr Yuri re-elected mayor.

Mr Grigory Yavlinsky, the liberal leader of the Yabloko

faction, may have syphoned off the votes of young urban professionals and the intelligentsia, who have been appalled by Mr Yeltsin's growing authoritarianism and the conduct of the Chechen war. However, in the final

Zyuganov takes the border regions as Yeltsin conquers the North and Fa

flamond workers who voted for

Žvucanov and Žhirinovsky ku

The Rad Belt, a string of and westernized part of Russia. impoverished factory towns and containing the most densely depressed farming regions, gave are small, with border regions and a larger part of the acricultural

and Khabarov regions, headed by and Salcha. Oil prices are up and of least some of the oil companies slower land reform. But Zyugenov to stay affoat by engaging in trade failed to match the big sweep his with Asia. Lebed did well to the Lebed did well around his form party made here in Dec

Mr Yeltsin next month. The real damage was done by Mr Zyuganov who trounced Mr Yeltsin in the poorer rural regions and smaller towns in central Russia and the south, while Mr Alexander Lebed, the populiat former army commander, picked up strong support in demoralised military districts and the far

Mr Yeltsin's aides were yesterday hinting that they would change the style of their round and directly target these bastions of opposition. Mr

photo-opportunities in the muckier parts of the Russian inclined to edopt a confrontational approach

running on an aven more

aggressively anti-communist

"Now after the first round, the situation is different. The choice is simpler: either back or forward to stability and prosparity," he seid, immediately after tha first prosparity. results became known.

But the danger of running

moderate supporters of Mr Yavlinsky and Mr Lebed, who have been urging the creation rather than stirring up old

If he starts throwing too much mud, Mr Yeltsin may also lose the edvantage of remain above the political fray and deter the electorate from For his part, Mr Zyuganov

must clearly try to extend his Russian politics. He can rely on a rockbed of support but is desperate to reach out to the

candidates in the first round of

helped Zhirlnovsky gain a surprise

victory, backed Yeltsin and Lebed

instead this time. The Primorsky

Like Mr Yeltsin, the Communists will initially arget Mr Yevlinsky's and Mr Lebed's voters. But Mr Zyuganov may also receive some help from another unlikely quarter. Mr Viadimir Zhirinovsky, the ultra-nationalist who did poorly in the polls with under 6 per cent - Mr Zhirinovsky appeared to

lose many of his supporters to Mr Lebed and remains fiercely opposed to the Communists

including Mr Mikhall Gorbachev, the last Soviet president, none received more than Piper cent of the vote. Despite requiring 1m signatures to register as e candidate, none of these candidates won that number of votes and their endorsements but can be of little use

electorally.

Mr Yelisin's aides believe the key to victory is in mobilising e higher turnout than the 70 per cent that voted on Sunday and can be relied upon to offer the electorate more "bread and circuses" as inducements. Mr Yeltsin has already appeared at a series of rock concerts to enthuse young voters and has been pressing home the message: "Vote or Lose". Many more such events are bound to be staged in the fickle

Mr Sergel Filatov, the head of Mr Yeltsin's re-election committee said: "If we had got maximum voter turnout on June 16, the gap between leader Gennady Zyuganov would have been bigger."
As part of the plan to

increase the turnout, Mr Yeltsin's team are pressing for the second round to be held on Wednesday July 3 which will be declared a national holiday. They fear that many pro-Yeltsin voters are out at their country dachas at the traditionally held and would not make it back to the cities

Mr Yeltsin's aides also seem relieved that one other potential distraction will be out of the way next month They blamed the Russian football team's disappointing European championship in England for "demoralising" potential voters. The coach's criticisms of his players lack of "moral fibre" could, some might say, have been equally applied to millions of Russian voters who were slumped in front of their television sets

Liberal economist's political influence may end up proving greater out of the race than in it First-round

General Lebed: kingmaker in the making?

According to his adoring troops in the 14th army. Mr Alexander Lebed, a aurprise third in Sunday's presidential poll, has "the physique of Arnold Schwarzenegger and the brains of Albert Kinstein." Less worshipful observers

might demur, but uo one can argue that over the next three weeks the gravelly-voiced former general will need the constitution of an ox and the mind of a chass grand-master as be faces choices which could

It is a position that Mr Lebed has no qualms about occupy-ing. Untroubled by false mod-esty or self-doubt he is the sort of man who can answer e question about his strong showing in the polls with the one-liner last night: "It is because I am a born winner."

The interviewer politely observed that this was not quite true - with some 15 per cent of the vote, Mr Lebed came in a distant third. Unfazed, he said this was just a atart and that eventually he expects to win the ultimate prize. Independent observers are less confident that one day he will rule the Kremlin,but many believa that the man who less than a year ago was. driven from his obscure command in the north-east corner of Moldova over a disagreement with the ministry of defence, has today become the

kingmaker of Russian politics. With just a few percentage points separating Russian President Boris Yeltsin and Mr Germady Zyuganov, the com-munist candidate, in Sunday's ballot, as they prepare for a run-off sometime over the next few weeks, both leaders are

Mr Zyuganov personally if he does a deal with the appealed to him to to join his Kremlin Mr Lebed's less comcommunists say Mr Lebed he is no better than the slipcould demand almost any post-pery establishment politicians tion in a communist adminishe he has attacked on the bus-

But the president has made voters may decide not to go to the most aggressive effort to the polls at all. Or they might woo the new darling of the back the only force whose hours after polls closed on Sun- has been unrelenting: Mr Genday, Mr Yeltsin's aides were nady Zyuganov and the com-

the former general was in the Kremlin being offered e seductive range of posts within the Yeltsin administration, including e newly invented position which would give Mr Lebed broad authority over the crucial power ministries: defence, the ministry of the interior, the re-vamped successors to the

Mr Lebed seems tempted. But if he does take the balt it is far from certain that his supporters will eutometically follow him into the the president'a fold.

Some Yeltsin strategists say Mr Lebed and his voters are natural allies for the government, but the reality is much less clear-cut. As his buoyant showing in the Far East, e traditional atronghold for Mr Vladimir Zhirinovsky, Russia'a ultra-nationalist, suggests, appear to be the relatively poor and uneducated voters who in past elections have expressed their inchoate rage with the current world order by backing a politician who speaks fondly of Hitler and thinks Russian troops should conquer India.

Although Mr Lebed's election programme is surprisingly liberal on the question of market reform - be describes privatisation, price liberalisation and financial stabilisation as "crucial and unavoidable" - he has not been shy of playing to the darker instincts of his angry constituency...

Even Mr Yeltsin, who forced Mr Lebed into a humiliating resignation from his job last summer, has come in for a fair share of abuse during the heat of the campaign.

"All of today's democrats are yesterday's communists, and high ranking ones at that." Mr Lebed said earlier this spring. than anyone else."

mitted supporters may decida tings. In their disgust, these attack on the current regime

Yavlinsky could yet play leading role

Mr Grigory Yavlinsky, the tousle-haired economist who ism in Sunday's presidential elections, played a marginal role in the contest, garnering little more than 7 per cent of the vote, concentrated in Moscow and St Petersburg. Yet, ironically, his influence on Russian politics could be far greater now he is out of the race than when he was in it.

As both President Boris Yeltsin and his communist challenger, Mr Gennady Zyuga-nov, scrap for votes in the second round of the elections, the 44-year-old leader of the liberal Yahloko movement could yet end up with a leading role in either administration and boost his longer-

Mr Yavlinsky ran a naive, poorly organised campaign; Mr Yeltsin's aides were able to paint his exploratory talks with the president about form-ing a possible electoral alliance as an attempt to parlay political support for a post in a new

Starved of funds by his former backers who switched to Mr Yeltsin's cause, and denied access to the media which had cannot simply "give" his votes once favoured him, Mr Yevlinton to either candidate; they must sky's campaign shrivelled as the election neared, despite his seemingly attractive programme of moderate political have to do something that I and economic reform. "The election is far from

being equal, free and demo-cratic," Mr Yavlinsky comday. "It is reminiscent of the flict in Chechnya, ditch his

nev [the former Soviet leader]."
Despite his criticisms of the president, Mr Yavlinsky seems ready to talk to Mr Yeltsin again before the second round in the hope of tempering his more extreme policies. "If Yeltsh wins the elections unconditionally, he will think he is a god," Mr Yavlinsky said earlier

this month.

Mr Yavhinsky has argued he cannot bring you voters like can explain to my supporters." The liberal leader has made qual, free and demo-Mr Yavlinsky com-urged the president to take fur-

ther steps to resolve the con-

edges of his economic programme by strengthening the social welfare net. Mr Yavlinsky's endorsement

of Mr Yeltsin in return for such concessions would certainly help reconcile many Yabloko supporters to the presnot so much that Mr Yavlinsky's supporters would vote for would not vote at all. The liberal Yabloko parlia-

spective, Mr Yavlinsky may even privately prefer a Zyuganov victory. Mr Yaviinsky. would probably emerge as the only credible leader of the dem ... ocratic opposition in parliabig danger for Mr Yeltsin is self for a stronger run at the presidency in four years' time. But such thinking is hardly Mr Zyuganov as that they likely to appeal to many of his supporters, no matter how loyal they may be.

The liberal Yabloko parliamentary faction will hold a congress on Siturday to defermine its position, though a vociferous misority may argue for supporting Mr Zyuganov. The Communist party leader is desperate to win Mr Yaylinsky's support, knowing it would win him credibility feed for the rest of the decade.

Paris and Bonn in drive for flexibility ahead of EU expansion

By Lionel Barber in Rome

A Franco-German led drive for more flexible political integration to prepare for future enlargement of the European Union

is gaining ground.

The shift in sentiment is reflected in a paper drawn up by the Italian presidency for heads of government to consider at this week's European summit in Florence. EU foreign ministers, meeting in Rome yesterday, considered the paper, which

sums up the first three months' negotia-tions in the Maastricht treaty review con-

The Italian document confirms the slow start to the IGC, but identifies the principles and conditions for allowing an advance guard of member states to co-operate more closely without being hald back by dissenters:

Flexible co-operation should not apply to the single market or core areas such as competition policy.

mit serious or persistent breaches of important for governman human rights or violate democratic princicompetitiveness, be said.

The presumption of common action should prevail, leaving enhanced co-operation as a recourse of last resort.

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The presumption of common action should be a "hard core" inside the EU.

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The presumption of common action should prevail, leaving enhanced co-operation as a recourse of last resort.

The presumption of common action should be a start in the should be at many extension of major its leaving common foreign and security policy more effective as well as co-operation on immigration and home affairs.

The presumption of common action is a recourse of last resort.

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The presumption of common foreign and fexibility, the chief issues are how to make the fledgling common foreign and security policy more effective as well as co-operation on immigration and home affairs.

The presumption of common foreign and fexibility, the chief issues are how to make the fledgling common foreign and security policy more effective as well as co-operation on immigration and home as foreign policy and home.

The presumption of the principle of the naw democracies of central and which could be 11 months away.

Apart from the question of national whether chief issues are how to make the fledgling common foreign and security policy more effective as well as co-operation on immigration and home as foreign policy and home.

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SEI 94H.

By Andrew Fisher in Frankfurt The Bundesbank yesterday damped hopes of an early a seasonally and calendar-resumption of German eco- adjusted basis. nomic growth, with a cautious assessment that sighted "rays of hope" but no clear indica-

tions of a breakthrough. While encouraged by improving demand for exports, the German central bank said in its monthly report that private consumption remained disappointing. Industrial investment was an especially weak point in the economic picture, with low capacity utilisation and high costs and taxes combining with business uncertainty to eign business was still not

hold back spending. Manufacturing industry

first four months of this year showing a slight rise compared their own restructuring and with the last quarter of 1995 on cost-cutting, as well as by the But it was too early to say

Gross domestic product fell

in real terms by 0.5 per cent in the first quarter over the last quarter of 1995, with the cold winter holding back output, especially in the construction Despite its more positive

view of exports, the Bundes-bank said the recovery in forcomplete. German companies still needed to pay urgent

correction of the "excessive D-Mark revaluation" that took place early in 1995, and moderdefinitely whether the whole economy was through its low this year.

But part of the export improvement had bean achieved by German companies making more use of cheaper foreign parts in their

It did not quantify this, but said the share of imported components in export products had increased markedly. Thus higher exports were not fully benefiting the German econ-

Tha increase in foreign busiseemed to have passed the attention to improving their ness could also partly reflect total German workforce, and orders that companies then

nessed over to lower cost foreign subsidiaries.
The Bundesbank eld not expect the hoped for economic recovery to have much impact on unemployment which it economy's most pressing prob-

lem. It called on the government to cut taxes and sticial security levies, and implement decisively its budget-saving and job-creation package. Only long-term structural

reforms could improve employ-At the end of May, season-ally adjusted unemployment

was 3.93m, e rise of 355,000 on the same time last year. This was 10.3 per cent of the

Bundesbank takes cautious line Mixed reception for new on Germany's growth prospects Austria economy minister

Mr Johann Farnleitner, the economists who feared he would slow the deregulation process started by his predecessor. Mr Johannes Ditz resigned last week partly out. of frustration over resistance to his programme.

As deputy secretary general at the Federal Economic Chamber, the largest business association in Austria, Mr Famileitstiff fight against Mr Ditz's plans to ease the burdensome licensing procedures for business start-ups and relax shop

strictest in Europe. Mr Farnleitner seemed to confirm these worries when he surprise choice for the post of said yesterday that his main Austria's economics minister, yesterday won a mixed recepand improve competitiveness, and improve competitiveness, not to speed up business

deregulation. A lawyer by training Mr Farnleitner, 57, spent his whole professional career as an expert in the economic chamber. He is known as a bland but competent expert on European Union issues and an experienced negotiator with the powerful trade unions.

man of the People's Party, came as a surprise to political observers who had expected a

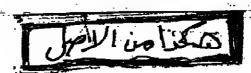
most important economic post held by the junior partner in

the coalition government.

Mr Schüssel is said to have asked a number of prominent political and business leaders. including Mr Günter Stummvoll, Mr Farnleitner's boss at the economic chamber.

The switch from Mr Ditz to

Mr Farnleitner is expected to weakan the People's Party influence in their ten-year-old coalition with the Social Democrats. There are doubts whether Mr Farnleitner will bear able to match Mr Ditz, who His appointment on Sunday had influenced fiscal and econer helped the group put up a night by vice-chancellor Mr nomic policy making for more Wolfgang Schussel, the chair than a decade and was the main architect of the austerity package designed to bring the budget deficit in line with the 15.5 per cent in east Germany. closing hours, currently the better known candidate for the Maastricht criteria for Emu.



Sicilian snub for Berlusconi

The Forza Italia movement of Mr Silvio Berlusconi suffered a big loss of support in Sunday's poll to elect a new regional

Only two months after Italy's general election, Forza Italia's share of the vote among the 4.4m Sicilian electorate was halved to 17 per cent. Mr Gianfranco Micciche, the regional organiser of Forza Italia, resigned after the result was

Support switched to the two moderate parties in Mr Beriusconi's right-wing alliance, formed from part of the now defunct Christian Democrats – the Christian Democrat Union (CDU) and the Christian Democratic centre (CCD).

The switch in voter allegiance did not affect the overall result: the Berlusconi-led rightwing alliance gained a clear majority, with the four main parties in the alliance winning more than 50 per cent of the vote and 49 of the 90 seats in the

The parties stood separately to take advantage of Sicily's electoral laws using proportional representation. None of the 51 groups representing autonomy platforms for Sicily did well, the best being Noi Siciliani (We Sicilians) with 1.5 per cent. Support for the reformist anti-Mafia party, La Rete (The Network), which had established a strong presence in Sicily since the last regional vote in 1991, was more than halved to Robert Graham, Rome

VW recalls 950,000 vehicles

Volkswagen yesterday announced the recall of 950,000 of its cars to test for potential faults in the engine cooling system. The German carmaker said the recalls affected Golf and Jetta models hullt between 1983 and 1989 with a 1.3 litre engine, and Passat and four-cylinder Corrado models built in 1968 and 1989. About 500,000 of the cars affected are in Germany itself.

Volkswagen last year announced a recall of about 1.2m Golf and Jetta models in Germany and another 700,000 cars in western Europe, also because of suspected faults in the cooling and heating system

The costs are paid for by Volkswagen, which has built up special reserves to cover recalls. The company yesterday gave no precise cost details, but indicated that the costs could run to about DM100 (\$65) per car or slightly less, which would suggest a total of up to DM95m. The stock market reacted to the news, by marking VW shares down DM3.25, or 1.5 per cent, to DM553.50, Wolfgang Munchau, Frankfur Wolfgang Munchau, Frankfurt

Nastase fails in mayoral race

Mr Ilie Nastase, the former tennis star, has failed to become Mayor of Bucharest, his home town, winning just 43 per cent of the vote in a two-way run-off, according to final results for the capital released yesterday.

Mr Victor Ciorbea, a former trade union leader and the candidate of the Democratic Convention (CDR), Romania's main opposition group, extended his 10-point first-round lead over Mr Nastase, winning 57 per cent of the vote in Sunday's

The CDR also beat the governing Party of Social Democracy (PDSR), which Mr Nastase represented, in five out of six of the run-offs for district mayors in the capital, where 11 per cent of the population lives. Partial results from the rest of the country suggested the governing party had also been defeated by the CDR and other opposition parties in most of the few Virginia Marsh, Bucharest cities or large towns.

Swiss money laundering moves

The Swiss cabinet yesterday approved a draft law to combat money laundering, including a controversial provision requiring financial managers to report suspicious transactions. The legislation, if adopted by parliament, would force all money managers to keep a paper trail on accounts and allow assets to be frozen pending an investigation. A key change under the legislation would be in the law on reporting of suspicious accounts. Switzerland in 1994 curtailed the country's banking secrecy

for the first time with a law allowing banks to report suspicious customers to police. But the new law would go further hy requiring bankers, asset managers and lawyers to report money coming from the drugs trade or other crimes.

The draft bill would also put legal responsibility on any person or company whose business is managing or looking after money. This provision includes investment funds, life assurance companies and asset managers who are presently outside the range of money laundering laws.

Ruling party wins Albania re-run

Albania's ruling Democratic party has won a partial re-run of the earlier disputed general election, officials said yesterday. The fresh round of voting in 17 electoral districts confirmed a landslide victory for the government. However, most opposition parties, including the main opposition Socialist party, hoycotted the polling, which was organised after the first ballot was plagued by irregularities. The country's electoral commission announced yesterday

the ruling party had won in all the 17 districts contested on Sunday. International observers and the European Union backed opposition claims of manipulation and had urged a partial re-run. But it is still unclear whether Sunday's vote will satisfy their request. Marianne Sullivan, Tin

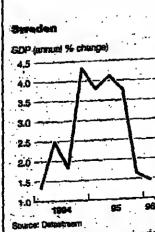
Brussels seat belt rules for buses

The European Commission adopted rules yesterday requiring manufacturers to fit all new coaches and minibuses with seat belts for all passengers.

The rules, which will be phased in by the year 2001, require three-point belts for minihuses and two-point belts and energy-absorbing seats for large coaches, the Commission said, The legislation – which amends existing EU rules on seat belts – implements a deal hammered out by EU government officials in April in the wake of a series of fatal crashes. It also requires manufacturers to fix labels on cars warning that rear-facing beby chairs should not be used in seats protected by air bags.

ECONOMIC WATCH

Sweden's GDP up 1.4 per cent



Sweden's gross domestic product rose 1.4 per cent in the first quarter of 1996 on a year earlier, Sweden's central statistical bureau reported. In the first quarter of 1996 private consumption of goods increased by 0.9 per cent on the first quarter of 1995, due mainly to an upturn in consumption of food and energy. Gross fixed capital formation rose by 11.2 per cent, with industries increasing their capital formation by 14.9 per cent on a year earlier. The upturn in GDP is also explained by a growth of net exports hy

SKr6bn (\$898m) at current prices, it said. Production in industry increased by 1.9 per cent and total hours worked rose AFX, Stockholm by 1.5 per cent, the bureau said. Finland's industrial output in April was up 0.9 per cent from a year earlier, adjusted for the number of working days. industrial output in the first four months was up 0.5 per cent

Spanish exports, especially to non-EU countries, picked up in April with an increase of more than 17 per cent.

Cyprus moves up international agenda

President Clerides has been encouraged by a recent flurry of world interest. Edward Mortimer reports

this week the European Union summit in Florence.

President Glascos Clerides of Cyprus is covering all bases in effort to move the Cyprus problem back up the international agenda - encouraged by a recent flurry of interest, as the US, United Nations, the EU presidency, and the UK (Cyprus's former colonial mas-ter and a guarantor of its independence) have all appointed special representatives to deal with the issue.

Mr Clerides is the fourth Greek Cypriot leader to wrestle with the problem since 1974, when Turkish troops landed on the island and created an ethzone in the north. Even before that, as negotiator for the sland's first president, Archbishop Makarios, he had many meetings with his Turkish Cypriot opposite number, Mr Rauf Denktash, now president of the self-proclaimed "Turkish Republic of Northern Cyprus". But Mr Clerides believes, as

do many international observers, that a new turning point is Last year the EU agreed to open membership negotiations with Cyprus six months after

Y esterday the White the end of the current inter-House, tomorrow No 10 governmental conference – Downing Street, later probably in early 1998.

EU member states have made it clear, as has the Commission, that they would much prefer to negotiate with a reunited Cyprus. But they all recognise Mr Clerides's government, elected by the Greek Cyprict majority, as the only legitimate one on the island; and they hope the fear of negotiations going ahead with a purely Greek Cypriot government will encourage the Turks to make a serious effort to settle the conflict within the next 18 months.

So far there is little sign of that happening. Mr Boutros Boutros Ghali, the UN secre-tary general, has had talks with both Mr Denktash and Mr Clerides within the last two weeks, but has not found enough common ground to justify hringing them together for a new round of negotiations. Mr Clerides himself says he expects no immediate results

in Turkey. "Even if I credit Denktash with willingness to be flexi-hle," he asks rhetorically. "without a Turkish government to cover him, is he likely to make any concessions? My

from his present trip, because

there is no stable government



President Clerides: believes new turning point is approaching

philosophy is that Ankara has to decide, not Denktash though Denktash can be a nuisance if they try to force him to go further than he wants."

In 1979, both sides agreed on the main lines of a solution: the island should remain "bizonal" and bi-communal, with a federal constitution based on the political equality of the two communities. But they remain divided on powers and compothe size and shape of the two zones, the right of Greek Cypri-

ots to return to homes in the Turkish zone, and security

Mr Denktash insists Turkey retain the right to intervene if Turkish Cypriot rights are not respected, while Mr Clerides prefers a multinational force stationed on the island, with a UN mandate to intervene if aither side reneges on the

Mr Denktash now hlames the EU for accepting a membership application from a government he says is illegitimate, because

rejected Mr Clerides's offer to include Turkish Cypriots in the negotiating team, and threatens to hold a referendum in the north on the proposition that Cyprus should not be allowed to join the EU before Turkey - which will be well into the next century, if at all.

Turkey for its part has threatened to annex the north outright if the EU admits the south - a threat most diplomats discount, given the high financial and political costs Turkey would incur.

ambassador on the island, Mr Gilles Anouil, has mounted a campaign to convince Turk-ish Cypriots of the benefits hership, hoth in economic terms and hy having their rights and political status entrenched in EU law. This cuts no ice with Mr

The EU meanwhile, through

Denktash but many Turkish Cypriots seem interested. They hlame Turkey for allowing their economy to stagnate and driving down their living standards hy importing cheap labour from the mainland.

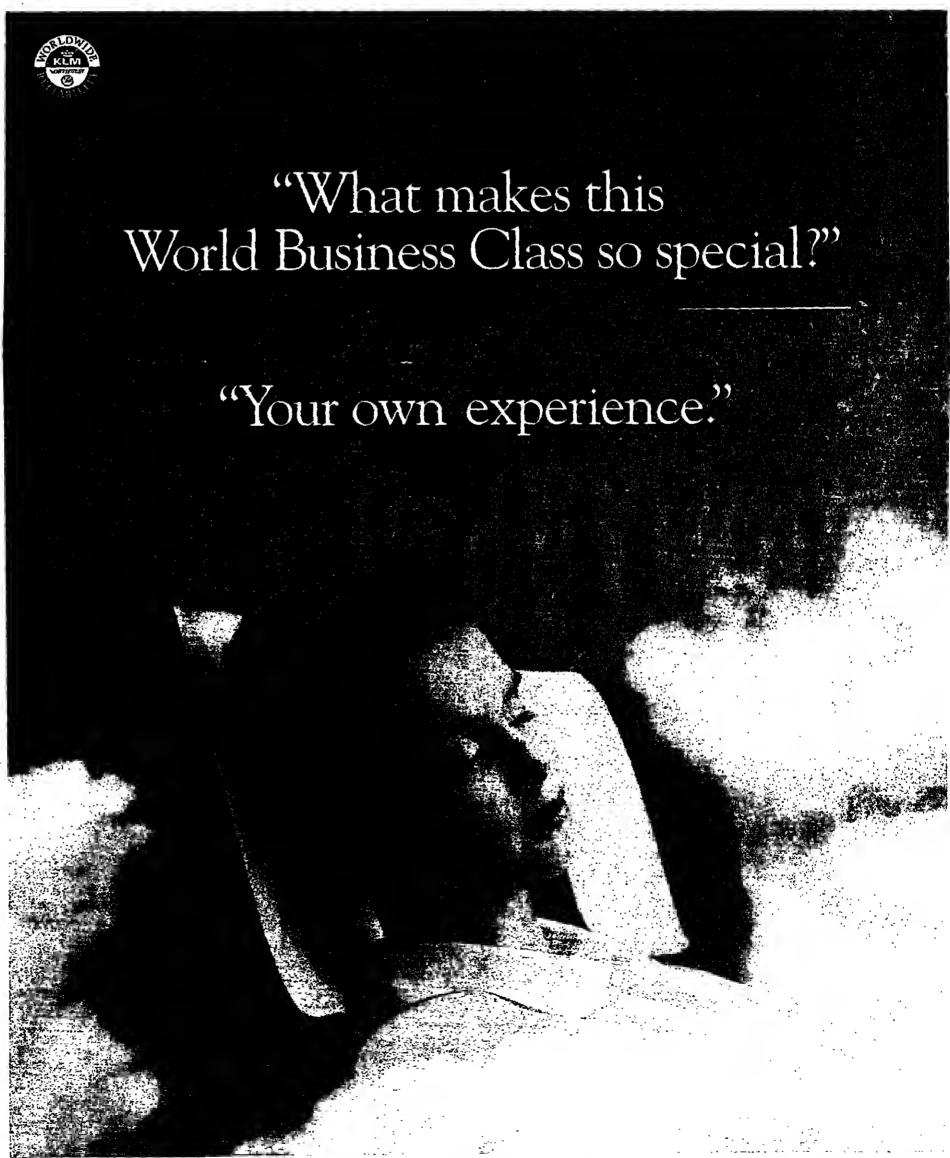
Many have left, and some of those who remain say they are now outnumbered by Anatolian settlers. Mr Ozker Ozgür, e

it is composed exclusively of former minister in Mr Denk-Greek Cypriots. He has tash's government, says he fears that if Cyprus joins the EU without a political settlement there will soon be no indigenous Turkish Cypriots left. Once entitled to EU citizenship, he says, most would seize the chance to emigrate to

western Europe. Twenty per cent of northern Cyprus is set aside for military purposes, and there is one soldier for every four civilians. peacekeeping force in the narrow strip separating the two zones, believes both these figures are world records.

In the south Mr Clerides is trying to redress the balance hy spending \$2m a day on arms. US President Bill Clinton is likely to have told him, at their meeting in Washington yesterday, that this policy only raises tension and the risk that Turkey would take pre-emptive action there in the event of a clash with Greece.

Mr Clerides will counter by reminding Mr Clinton of his promise to Greek American voters four years ago he would do something to help solve the Cyprus problem. Mr Clinton will hardly need reminding, since his energies are already focused on getting himself re-elected in November.



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slower growth

Japanese trade surplus falls for 18th month | S Korea sees

Rising domestic demand for personal computers and semiconductors was a factor in a 60.5 per cent decline in Japan's trade surplus in the year to May, the 18th consecutive month of

The trade gap reached Y281.69bn (\$2.18bn), slightly higher than the market was expecting, according to preliminary data from the finance ministry yester-

Officials expect the surplus to remain on a declining trend. though many private sector economists in Tokyo believe that the rate of decline will



soon ease, as the weakness of the yen starts to improve the price competitiveness of

in overseas markets. The dollar was yesterday trading in Tokyo at around Y109, or about 22 per cent below its

Exports rose a vigorous 14.2 per cent to Y3,405.9bn in May, but that was less than half the reported pace of import growth, 32.6 per cent to Y3,174bn.

The underlying pace of import growth is slightly slower than that, because the headline figure is distorted by the 30 per cent rise in oil prices over the period. Up to 40 per cent of Japanese imports crude and refined products are linked to movements in oil Even so, Japan's recovering surplus economy showed robust US. demand for finished goods. Reuter ad nearly 60 per cent of the total, last month.

Imports of office equipment - mainly computers - rose by almost three quarters, while imports of electronic devices increased by 48 per

Unusually, the surplus declined with all three of Japan's main trading regions. The trade gaps with the US and with the European Union both fell by nearly 40 per cent in May. The gap with other Asian nations fell by 24.4 per cent, the second month in a row, to Y336.05bn. It was more than double Japan's Y167.7bn

Reuter adds: Japanese police raided the offices of one of the failed mortgage companies at the centre of a bad debt scandal yesterday on suspicion

of making unlawful loans. The raid on the offices of the Nippon Housing Loan Company was the first such action against one of the mortgage companies, or jusen, which are expected to be liquidated through government legislation. An official at Nippon

Housing declined to comment. officiala · also Police refuse to comment on the

reports. The reported raid comes as key financial bills, including one needed to implement a controversial scheme to wind up the failed mortgaga companies, were likely to become law today.

it calls for the use of Y685bn (\$6.28hn) of taxpayers' money. to help clear up the mess left by over zealous lending by private financial enterprises in the 1980s "bubble" era of inflated asset prices.

Nippon Housing is the biggest lander among tha seven jusen, with outstanding loans of more than Y2,000bn cent are said to be irrecover-

Minsheng is smaller than

Citic, which might help explain the swift authorisation for new

outlets. But it has some strong

cards to play in its expansion

The new bank is not saddled

with bad loans to state enter-

prises, a burden which poses serious problems for tha state-

sector banks. Nor is it obliged

As a nimble newcomer, the bank can exploit business

areas which open up with eco-nomic reform and develop-

ment. Mortgages for China's rising ranks of home-buyers are one area under consider-

ation. On the international

right, and if Mr Jing is correct

that China's economic reforms

cannot be reversed, then his

bank, one day, just might rank

John Ridding,

to provide bousing or medical

care for its staff.

in production There has been a public anger over the scheme because

By John Burton in Secul

Production growth in most of South Korea's main industries will slow during the second half of 1996 because of weakening export demand, a government research institute warned

The gloomy report by the Korea Institute for Industrial Economics and Trade (Klet) underscored that the economy appears to be beaded for slower growth during at least Although most analysts pre-

dict that gross domestic product will increase by 7 per cent this year, the growth rate could fall to 6 per cent or lower in 1997 as industries cut back

The Kiet, howaver, noted there would be strong growth for computers, while telecom equipment makers would benefit from a recent expansion of domestic telecom aervices. Machinery exports are also expected to climb by 23 per cent during the second half of 1996 dua to increased orders from China, Indonesia and Mal-

But production will slow in a

fall in prices for semiconduc tors, South Korea's single biggest export product, will mean total production of electronic parts will increase by 10 per cent in 1996 against 50 per cent

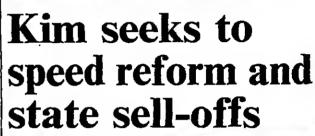
Steel and petrochemicals are also suffering from falling international prices.

The output of the car, ship-building, consumer electronics, steel, petrochemicals, elactronic components and textile industries will increase by less than 10 per cent compared with mainly double-digit growth last year.

Car production will be affected by a saturated domestic market and a slowdown in export growth to 11 per cent against 41.5 per cent a year

This reflects the growing competitiveness of Japanese car companies dna to a weaker yen. South Korean shipbuilders are also losing orders to Japanese rivals for the same reason.

Consumer electronics are snifering from sluggish demand both at home and abroad and are threatened with growing cheaper imports



Frustrated by the slow pace of privatisation, South Korean President Kim Young-sam yesterday urged that the reform of state-run industry be acceler-

Mr Kim has ordered that a new plan for the privatisation and managerial reform of state companies be completed by the end of August to prepare the enterprises for increased international competition.

The Korean state sector includes the country's leading eteel, telecom, power generation, gas and tobacco companies, most of which are highly profitable due to their nearmonopoly status.

The government announced an extensive \$7hn privatisation programme in 1993, but its implementation has fallen stock market and concerns that the country's main industrial groups, or chaebol, would strengthen their economic

dominance by taking over the

state enterprises.
The telecoms sector, for example, is being opened to foreign competition in 1998, while sales of foreign cigarettes are beginning to challenge the market dominance of the state tobacco company.

However, the administration

must still find solutions to several problems that have hedev. illed the privatisation process. One is the reluctance of government agencies, such as the finance and industry minis-

among public sector workers to that it could lead to job losses.

tries, to give up control of state-run companies.

There is also opposition



President Kim: frustrated by

Employees at Korea Telecom. to strike to protest at its planned privatisation.

Moreover, a rush of share could weaken the already frag-ile Seoul bourse by soaking up capital liquidity in the market. An alternative would be for the government to sell state companies to private enterprises, but the chaebol are the only ones considered to have the financial resources to buy them. This would run counter to the government's policy of reducing the chaebol's eco-

However, Mr Koo Bohnyoung, the senior presidential economic adviser, anggested that the government was considering other options, such as selling state companies to consortia of private concerns instead of single corporate buyers.

nomic power.

Mekong scheme outline agreed

By James Kynge in Kuala Lumpur

Miniaters from 11 Asian miniaters from 11 Asian nations yesterday agreed on a framework jointly to develop the Mekong river basin, which links Thailand, Laos, Vietnam, Cambodia, Burma and south western China.

The framework, broadly phrased to ensure unanimity among participants, formalises common ambition to build infrastructure, develop agriculture and tourism, and boost trade and investment in the resource-rich but underdeveloped region.
The scheme's centrepiece is

the proposed construction of a railway from Singapore to the south western Chinese city of Kunming, Malaysia, which will head a committee on building the railway, announced that it would put up M\$2m (US\$800,000) for a fassibility study to determine its opti-

num route.
The railway's route is a subject of argument. Laos, a landlocked state, has pushed hard for the route to run through its capital, Vlentiane. Burma is also keen that the railway

sbould traverse its territory. Other countries argue that such detours would maan delays, lost efficiency and higher transport costs.
Thailand was appointed head

of another committee on rais-ing funds for all projects to be undertaken under the Mekong development plans.
Funding would be sought from the private sector, donor

nations and international agencies, a compromise on an earlier proposal that the 11 core member countries each contribute to a Mekong Development Fund.

Laos, Cambodia and Vietnam bad expressed reservations about such contributions, said officials at a meeting of the 11 core members yesterday (Bru-nei, Cambodia, China, indonesia. Laos, Malaysia. Burma, the Philippines, Singapore, Thailand and Vietnam.

However, officials said privately that ultimately it was likely that Japan and the Asian Development Bank would be the main sources of funds, along with the wealthier core members such as Singapore, Malaysia and Thai-

Nimble newcomer appears on China's banking scene

Its aim is to be among the country's biggest in 10 years' time

appeared on China's banking scene. "Our goal is to be among the biggest in 10 years' time," says Mr Jing Shuping, chairman of the China Minsheng Banking Corporation, the country'e first post-revolutionary private-

That is a tall order. With 130 staff and three offices, the fledgling institution is dwarfed by state-sector giants, with staff in the millions and thouands of branches,

But Mr Jing is well versed in order. The fact be finds himself at the head of a bank owned 80 per cent by private-sector com-panles underlines the potential ness sector as a result of economic reform. Thirty years ago, I would

never bave foreseen such changes," says Mr Jing, who started out in chemicals and cigarettes before China's 1949 revolution. Unlike many of his Shanghai fellow busines he resisted a move to Hong Kong. 'I went to look with my brother for a few weeks but we thought we would be eaten by bigger fish," be says

The result was a harrowing

period during the Cultural Revolution. Dubbed a "reactionary" the Asian Development Bank, have expressed interest. But capitalist", be spent two years labouring on a remote farm in central China living in quar-ters he built himself. His fortunes and his Shanghai home restored by the economic reforms launched in the late 1970s, he is now labelled an

The Minsheng Banking Cor-poration (the People's Liveli-hood Bank) is designed for kin-dred spirits. "Financial services rendered by existing state-owned banks to the nonstate sector are limited," says the bank's launch document in a move to belp remedy the problem, Mr Zhu Rhongii, China's reformist vice-tremier for economic affairs, gava Minsbeng the green light. "He described it as an experiment, to get the ball rolling," says Mr

That was in June last year, The doors opened for business in January, with capital of Yn14bn (\$168m) and 59 shareholders drawn from more than 200 applicants. The higgest include Yitong, a Guangdong-based trading and industrial concern, which has just under 9 per cent of the bank's shares. Foreign investors, including

have expressed interest. But this would breach regulations allowing Minsheng to conduct business in renminbi, the

So far, the bank bas extended loans of about Yn600m, mainly in the form of working capital to manufacturing companies. The aim is achieve loans of about Yn3bn by the end of the year, with total assets of more than Yn6bn. Customers include staff from the foreign ministry, situated down the road from Minsheng's central Beiling office.

growth will come from new branches, Minsheng has received approval to open in three more cities this year; Shanghai, Guangzhou and Changdu. Other provinces are pressing for the bank's pres-

However, staff skilled in ana-Industrial Bank, the banking arm of the Citic investment opening new branches.

front, Minsheng has received a licence for foreign exchange transactions and is negotiating correspondent banking agreements with foreign giants such as Deutsche Bank and Chase Manhattan. If Minsbeng plays its cards

lysing credit are a rare commodity, while vested interests in the industry obstruct the emergance of rivals, Citic group, which Mr Jing also helped create, cites delays in

ASIA-PACIFIC NEWS DIGEST

Peter Montagnon and Tony Walker

N Korea economy shrinks by 4.6%

sixth consecutive year of decline, according to an estimate by South Korea's central bank yesterday. The fall in economic activity reflected sluggish industrial production caused by a continued shortage of raw materials and energy, combined with poor harvests because of natural disasters such as

The Bank of Korea in Seoul estimated North Korea's gross national product had shrunk 25 per cent since 1999, with its nominal gross national product of \$22.8bn only one-twentieth the size of South Korea's economy. The country's central bank predicted that North Korea would continue to slip down the global economic table because of deep structural problems caused by its traditional isolation. Its total trade volume amounted to only \$2bn in 1995. North Korea last year ranked 60th in the world in terms of nominal GNP and 100th in per capita income at \$957.

Thai bank licences proposed Thailand's central bank has recommended that Mr Bodi

Chunnananda, the finance minister, award at least three new domestic banking licences to consortia led by Italian-Thei Development, General Finance & Securities, and MBK Property and Development. They will be the first full commercial banking licences awarded since 1966.
SITCA Investment and Securities and the War Veterans Organisation of Thalland were disqualified for not meeting

application criteria. The third unsuccessful applicant, First City Investment, was not recommended by the central bank, which questioned its ability to set up a strong institution as most of the consortium's partners rely on credit from the state-owned Industrial Finance Corporation of Thailand. The banking licences must be approved by the Thai cabinet. Finance ministry officials have held ont the possibility of allowing the disqualified groups to submit new applications before the minister presents his final proposal to the

Volcano disrupts NZ tourism

Four airports were closed and businesses disrupted yesterday in one of New Zealand's busiest tourist destinations, after a large area was blanketed in ash following a volcanic eruption A vast asb plume spread north east from Mt Ruapehn in the centre of the North Island, hitting the tourist centres of Taupo

and Rotorus. No one was burt.

The ash was at least 3cm deep and falling heavily. One resident said that by midday, cars were driving in darkness in Taupo, the town on the northern side of Lake Taupo, with beavy ash fall reported. "You couldn't breathe out there, it's horrible. It's in your hair and mouth," she said. Air space around the mountain from Rotorus to Whakatane in the north east was declared a dauger zone and aircraft were warned to stay away from the black clouds.

Challenge to euthanasia law

An 11th-hour legal challenge to controversial voluntary euthanasia legislation in Australia's Northern Territory was lodged in the territory's Supreme Court yesterday. The legislation would permit doctors to assist terminally ill patients to die (subject to fairly stringent conditions) and is due to come into force on July 1.

The Northern Territory would be one of the first places in

the world to make voluntary euthanssia legal. But court staff confirmed yesterday that the Northern Territory branch of the Australian Medical Association had lodged documents opposing the law, and a hearing has been set for Friday.

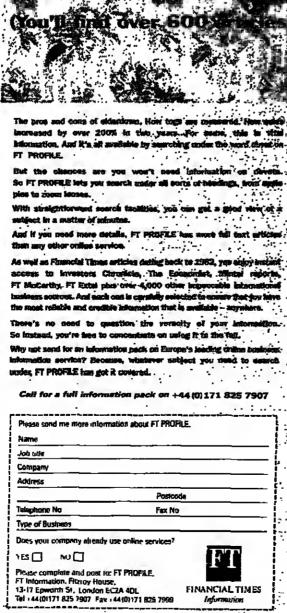
The Northern Territory government has said it will fight any attempts to seek an injunction to prevent the legislation coming into effect. Nikki Tait, Sydney

Jing Shuping: his fledging bank has set itself a tall order The Nutional Bank of Greece invites applications for twelve portitions of specialised professionals. The applicants should have an excellent knowledge of English and Modern Greek and should be born after January 1st, 1958. Knowledge of a third A. POSITIONS AND ACADEMIC QUALIFICATIONS mic and Monetary Analysis - Econometrics in Econometries and modern quantitative methods of Analysis and Forcesting ic Theory and Policy Monetary Theory and Policy, and Domestic and International Applicants should have a Ph.D. degree in the above fields, a record of publication in established international academic journals, previous academic/professional experience and an axeellent background in economic models and corresponding ement, International Money and Capital Markets, Banking Theory and Policy Four positions in Finance, Financial Derivatives, Foreign Exchange, Money and Capital Markets, Theory and Practice of Portfolio Management, Investment Banking, Theory and Practice of International Banking and Finance. Applicants should have a Ph.O. degree in the above fields, a record of academic publications, previous academic/professional axperience and an excellent knowledge of concoractic models and corresponding software packages. Equal consideration will be given to applicants who have a two-year MBA or MA-equivalent degree. Significant previous professional experience, strong quantitative skills and excellent knowledge of relevant software packages. ancial and Administrative Accounting, Analysis and Mauag Three positions in Balance Sheet and Indices Analysis, Budgetiog, Financia Risk Management, Corporate Finance. Applicants should have a Ph.D. degree in the above fields, previous professional experience and an excellent background in econometric models and software packages. Equal consideration will be given to applicants with a two-year MBA or MA-equivalent degree, againsticant previous professional experience, strong quantitative skills and excellent knowledge of software packages. Bank Supervision and International Stanking Controls and Applicants should have a two year M&A or MA-equivalent degree and estional experience. For International Auditing, floorey in o third language. les Greek and English, would be an advantage. a. INTERVIEW Shortlisted candidates will be interviewed before a Selection Commisce in Athens, at a time and place to be notified to them by letter. Successful candidates shall be offered a three-year contract and a satisfactory n package depending on their overall qualifications and experience, with ty of permanent employment after the three-year period. C. APPLICATION PROCEOURE (i) a letter explaining which position they wish to apply for (ii) a curriculum vitae with their address and phone number (iii) three reference letters from previous employers or university professors (iv) copies of university degrees and transcripts [v] copies of their most important publications, if any. NATIONAL BANK OF GREECE, S.A. PERSONNEL DIVISION RECRUITMENT DEPT. 4 B-3 1For the attention of Mrs Gournas Re: SPECIALISED STAFF RECRUITMENT: 86, Ector Street, Michael 102.32 - GREECE Tel: ++ 301 - 334.1321 or 32L1058 Fax: ++301 - 321.9978 or 324.7798

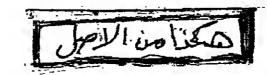
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Tony Walker assesses the US deal with China on protection of intellectual property

Barshefsky makes best of difficult task

5 Charlene Barshef-sky, the acting US trade representation last night hailed the Sino-US agreement to curb intellectual property rights abuses as an important step forward, saying it would result in "concrete and tangible action" by the Chinese to stamp out widespread counter-

She contrasted the agreement reached yesterday with last year's framework arrange-ments which had "established the parameters of enforce-

In February last year, how-ever, Ms Barshefsky also trum-peted what was described as a "breakthrough" agreement with China on enforcement and market access. In the event. Chinese enforcement efforts were limp - industry lem worsened - and progress on market access was "nil", as Ms Barshefsky later acknowl-

On the face of it, yesterday's agreement, reached as a dead-line approached for the imposition of sanctions, does represent progress; although how effective it is will be determined by China's willingness to live up to its commitments On this, its record is at best

Ms Barshefsky and her team of negotiators, who no doubt were under pressure from Washington to come up with an agreement with "testh", appear to have made the best of a difficult job. Securing Chinese agreement to close 15 plants with capacity to produce 30m-50m units of such items as compact and laser discs and CD-Rome represents an advance.

A basis for agreement · Improved market access for US goods Police enforcement of laws to half copyright that 9. Formal monitoring system with vertication of results ... Stringent measures to identify counterfelt producers and put China's imports from the US China's exports to the US

A ban on new CD factories and seizure of machinery and material used to manufacture pirate items should also rein-force the message to counterfeiters that life will become more difficult; although it will take weeks to assess whether circumstances really have changed on the ground.

Until the US threatened sanctions earlier this year. pirate producers operated with relative impunity under the noses of the authorities in some 34 factories, most of them in Guangdong province. China's undertaking to close

CD "distribution markets" and "laser disc showing rooms" where pirated films are shown for an admission fee also accords with the spirit of the latest agreement; but again this measure will be difficult to enforce in a country as large and diverse as China. Ms Barshefsky praised

China's decision to extend until August its present crackdown on coonterfeiting, but Beijing could hardly have offered less, given the dimen-

US negotiators also elicited undertakings that the Chinese

sees" one of the world's most porous frontiers, would heighten their efforts to stop the export of counterfeit goods. Since the beginning of 1996, customs has seized 80,000 pirated items, only a tiny fraction of exports of pirated CDs, laser discs and CD-Roms.

China has also agreed to step up monitoring of CD factories to ensure that copyright procedures are respected. Among undertakings is that before production of new recordings. the factories will check with the "appropriate US association" to verify royalty arrange-ments are in order. A weakness of this provision is that monitoring will be in the hands of Chinese law-enforcement officers who may find it difficult to resist local pres-

sures to turn a blind eye. Coding on CDs and on the moulds used to produce them will in theory help ensure that pirate products are cut off at source. But this will require a higher level of vigilance than has been demonstrated thus far by Chinese security.

Agreement on improved market access for US information and entertainment products appears to have been a big hurdle for negotiators. Ms Barshefsky said that "commitments to market access in the 1995 agreement were sweeping but nforcement was nil".

On this occasion, China appears to have gone further than last year's undertaking by specifically agreeing to allow recording companies and film studios to engage in co-production yentures with Chinese producers. The US believed it had got this understanding last year, but was disappointed. It will take time before it

Charlene Barshefsky, escorted by a Chinese security guard and colleague Lee Sands (right), heads for piracy talks yesterday

becomes clear whether China economy would be affected is able to live up to this element of the agreement. Chinese sensitivity about the introduction of "foreign culture" will continue to make it difficult for US recording companies and film studios to get their products past the censor. On paper this may appear like an important conce constraints will be real. Hong Kong yesterday expressed relief at the agree-

"Since both China and the US are Hong Kong's largest trading partners, Hong Kong's

even if there were limited sanctions," said Ms Denise Yue, secretary for trade and industry. Hong Kong's government had said the colony stood to lose about HK\$13.4bn (US\$1.73bn) of its re-export trade and 11,500 jobs if China and the US had launched titfor-tat trade sanctions.

Mr Eddy Li, president of the China and Hong Kong Eco-nomic and Trade Association, said the deal would boost China's chances of having its Most Favoured Nation (MFN) trade status approved by Congress.

EU set to start talks on 'open skies' with US

By Neil Buckley in Luxembourg

The European Commission is set to launch negotiations with the US on a European Union-US "open skies" agreement to liberalise civil aviation, after securing a mandate from EU transport ministers in Luxembourg yesterday.

After 15 months of negotia-

tions, only the UK opposed the unexpected move authorising the Commission to begin exploratory talks with the US. The deal came days after British Airways and American Airlines unveiled the world's the latest in a string of bilateral agreements between EU

states and carriers and the US. The joint mandate represents victory for Mr Neil Kinnock. transport commissioner, in his vigorous campaign to persuade EU members they can secure better deals with the US by negotiating collectively rather than individually.

This mandate will ensure that EU carriers can take full benefit of liberalised global air markets and secure for them and their passengers free, fair and above all reciprocal rights across the Atlantic," Mr Kinnock said.

Mr Kinnock stressed the Commission's negotiations would involve "no roll-back" of existing bilateral agreements between the US and EU members Austria, Belgium, Denmark, Luxembourg, Sweden, Finland and Germany, or negotiations on agreement between

the US and France. The potential prize for EU

US routes and airports, and rights to own and operate airlines there. The US has its eye on lucrative markets with which it has no open skies agreement, particularly France, Spain and Italy.

The two-stage mandate allows the commission first to negotiate on "soft rights". iocluding competition issues such as ownership and state aids, and operation of codesharing and computer reserva-

tion systems. Subject to progress on these, and a further positive vote from transport ministers, the Commission can move to the more sensitive issue of traffic rights, or which destinations

airlines are allowed to fly to. Although the talks would be in two stages, the EU envisages a single, all-embracing agreement. The US welcomed the maodate but expressed cautioo about the two-stage system. It views traffic rights as central to any talks.

The Commission will now set up a committee of member states' aviatioo experts to advise on the negotiations, but full talks may not begun until the autumn.

Several member states previously opposed granting the mandate, but the remaining dissenters, Portugal and France, were won over yesterday by adoption of the twostage approach.

The UK, however, has consis tently opposed EU-wide negotiations, and attacked yester-day's deal as a "regrettable decision". Its negative vote was unconnected with Britain's non-cooperation policy over

WORLD TRADE NEWS DIGEST

Thailand near Burma gas deal

Thailand and Burma yesterday moved closer to a big natural gas supply deal as the two countries pledged their support for a quick conclusion to negotiations between the state-owned Petroleum Authority of Thailand (PTT) and a consortium of Texaco, Premier Oil, Nippon Oil and the Myanma Oil and Gas

The 30 year supply agreement would have PTT agreeing to purchase 200m cubic feet per day of natural gas from the 1,100bn cu ft Yetagun field in Burma's Andaman Sea. Last year PTT signed a contract to buy 525m cubic feet a Gay of natural gas from a consorthm led by Total and Unocal; which controls the larger Yadana field. Construction of a continuing. Gas from the Yetagun field would be transported along the same on-shore route as gas from the Yadana field. but in a different pipeline until it reached the Thai side of the border, where it would merge into one pipeline.

PTT officials said that they expected a formal agreement within a couple of months. Outstanding issues include supply guarantees demanded by the PTT and a price escalation formula. Ted Bardacke, Bangkol Ted Bardacke, Bangkok

Japan chip market more open

The share of foreign companies in Japan's semiconductor market rose to 30.6 per cent in the first quarter of this year against 22.8 per cent in the first quarter of 1995, the US Trade Representative's office said.

In the last quarter of 1995 the foreign share of Japan's semiconductor market was 29.6 per cent. Coinciding with the publication of the figures, the US yesterday renewed its demand for continued government involvement in helping foreign manufacturers maintain their access to the Japanese microchip market.

The US-Japan semiconductor accord, which ensures a minimum foreign share of 20 per cent of the Japanese market, expires on July 31. Japan does not wish to renew the agreement because it feels the market share targets have been Foreign Staff, Washington

US move on maritime talks

The US yesterday proposed putting off stalled World Trade Organisation talks on liberalising maritime transport to a new round of negotiations on services due in the year 2000. US officials told a meeting of the maritime services negotiating group in Geneva that Washington stood by its earlier decision not to submit an offer in the WTO talks, due to end on June 30. Mr Don Kenyon, the Australian WTO ambassador who chairs the group, will hold consultations this week on what to do next, ahead of a further meeting next

The EU and 23 other countries had hoped to prompt the USto reconsider its stand by tabling an improved package of liberalisation proposals, an offer which lapsed on Friday. But negotiators in private have always recognised that the US negoriators in private nave always recognised that the US would have enormous difficulty in overcoming the opposition of the small but powerful domestic maritime lobby to a multilateral deal, especially in a presidential election year.

EU officials said yesterday they were disappointed by the US decision and suggested the negotiations might be resumed "after a pause", though before 2000. Other delegations, including Japan, appear to favour a prolongation of the Frances Williams, Geneva

Polyester yarn dumping duties

The European Union yesterday said it was imposing definitive anti-dumping duties on imports of polyester yarn from Talwan and Turkey, in view of continuing undercutting on the EU market. The duties will range between 3.3 and 16.1 per cent of net-at-EU frontier price according to the company exporting and the kind of yarn, the EU's Official Journal said.

"In order to provide adequate protection from continued injurious dumping by Turkish and Taiwanese imports and to prevent the recurrence of injury it is considered that anti-dumping duties should be established in such a way as to allow the Community industry to obtain a reasonable profit,"

■ GEC Alsthom, the Anglo-French group, said its European Gas Turbines unit won orders for gas turbines in China, Korea and Europe totalling more than Ecu65m (\$80m). AFE, Paris
Ericsson Telefon of Sweden has won a contract to supply the Concert joint venture with an Intelligent Network Service Creation Environment System. Concert is a joint venture between British Telecom and MCI Communications of APX, Stockholm

Call for worldwide rules on competition

By Guy de Jonquières

World Trade Organisation members should commit them-selves to establishing basic competition laws and enforce-ment systems as a first step towards agreeing binding global competition rules, a European Commission paper

tan and Mr Karel Van Miert trade and competition commi sioners, says that lack of global competition rules restricts free trade, threatening to provoke international trade conflicts and limiting the effectiveness

of EU competition policy. The paper, to be discussed by the Commission tomorrow, urges the EU to press for competition policy to be on the world trade agenda at the WTO's ministerial conference in Singapore in December.

Sir Leon and Mr Van Miert say it is too soon to consider setting up an international competition authority, with its own investigation and enforcement powers. They call for WTO members to move progressively towards agreement on common rules.
These would seek to promote

equal conditions of competition worldwide, permit closer co-operation among competition authorities and promote the gradual convergence of estic competition laws. The paper says the WTO should set up a compliance mechanism for competition

policy, similar to its trade disontes settlement procedures. so that common rules could be The mechanism could discipline countries that failed to

set up domestic competition policy regimes, or ones that ignored requests from other WTO members to enforce their domestic laws where specific cases arose.

The paper says a WTO agree-

ment on closer co-ordination and enforcement of domestic competition laws might need to be limited initially to industrialised economies and those developing countries which had the administrative machinery needed to handle sensitive commercial information. Sir Leon and Mr Van Miert

say effective global rules are needed to tackle anti-competitive practices which trustrate trade, and to avoid international disputes.

They cite, in particular, US attempts to impose competi-tion laws extra-territorially and permit trade action against coontries tolerating anti-competitive practices.

The EU paper says closer global co-operation on competition should not supersede trade defences, such as antidumping laws, which should remain in effect until national economies were much more

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another medium-sized bank

with a troubled portfolio of cor-

The foreign takeovers will

almost certainly involve fur-

ther sales of bad loans to the

National Banking and Securi-

own estimate of the cost of the

banking crisis approaches 12

Such estimates do not

include the wider costs to the

Mexican economy as a whole.

For the foreseeable future.

Mexico's debilitated banking

system will be unable to func-

tion as an efficient purveyor of

capital for businesses starved

of credit, while the burden of

bad debts will continue to

impose a heavy tax on the cost

"We are worried that the

government's efforts have not

been directed at getting the banks to start lending again,"

says Mr Alfredo Thome at JP

Morgan in Mexico City. The

government seems to think

that an economic recovery will

do away with the weaknesses in the Mexican banking sys-tem, whereas the recovery will

not take place unless the banks

Leslie Crawford and

strengthened first."

Daniel Dombey

per cent of GDP.

porate loans.

Clinton fury at Whitewater report leaks

The White House is reacting furiously to partial leaks of the Senate Whitewater committee report that its Republican majority is to make public

Mrs Hillary Rodham Clinton yesterday confronted her Senate accusers for the first time, when she sent a written reply to questions from the Whitewater committee

She said she did not know how billing records detailing her work for the savings and loan at the centre of the Whiteremoved from her law firm, or how they showed up two years later in the White House.

Mrs Clinton'e lawyer complained that Senate Republicans had leaked the findings of the investigation before the First Lady had even finished drafting answers to their questions, which she received late

"It simply makes no difference what information we furnish you," Mr David Kendall wrote in a letter transmitting Mrs Clinton's answers. The Republican majority report on Whitewater was "simply the politically preordained verdict

of a kangaroo court." Yesterday morning Mr Mark Fabiani, an associate legal counsel to President Bill Clinton observed that Washington "is the only place in the country where an ethics report by Senator [Al] D'Amato would be from New York is chairman of the committee, whose mandate expired yesterday.

In most parts of the comtry," he went on, "people

Arkansas, the trial began of two local bankers accused of

illegally diverting funds to

then Governor Clinton's re-

election campaign in 1990. The case of the FBI person

nel files on prominent Republi-

cans, requested by the White House in 1993-94, is also attracting widespread interest.

The latest batch of leaks

released for yesterday's media, allege that White House law-

yers "seriously misused" their

public offices by working on Whitewater-related matters for

the first family, including pass-

ing on information from gov-

ernment agencies to the Chin-

The majority report is also

reportedly highly critical of what it calls "highly improper

conduct" by several close asso-ciates of Mr and Mrs Clinton

inside and outside the White

House. They include Mr Bern-

ard Nussbanm, who resigned as White House legal counsel under fire for his handling of

Whitewater, and Mr Harold

Ickes, deputy White House chief of staff and a top re-elec-

tion strategist for Mr Clinton.

allegations does appear to be

taking some toll, especially

now that Mr Dole may be cut-

ting into Mr Clinton's lead in

The cumulative weight of

tons' personal lawyers.

Banks hold key to Mexico's recovery

Businesses are starved of loans in country's 'Can't Pay, Won't Pay' culture

exico's banking crisis continues to dog Mr Guilletmo Ortiz, the finance minister. Due to address a financial convention in the northern city of Monterrey this month, he found his path blocked by a mob of

D'Amato is the chairman of Bob Dole's presidential cam-The minister flew back to paign and that he's run 14 Mexico City, his speech unde-livered in another publicity months of hearings at taxpayer expense that basically result in coup for El Barzón, a milita debtors' movement that has bedevilled the lives of Mexico's a paid campaign contribution." In targeting the messenger, Mr D'Amato, the White House scions of finance since the is trying to blunt the impact of Whitewater and other related country's economic crisis erupted in December 1994. El Barzón - The Yoke -Yesterday in Little Rock,

claims more than 1m members nationwide and appears to have lost none of its disruptive power despite government relief schemes to help Mexico's over-indebted middle classes. The latest programme,

ced last month, aims to lower the cost of mortgages by 30 per cent. The government says the programme will benefit almost all Mexico's 900,000 mortgage-holders, who took out home loans in the early 1990s when the economy was growing, interest rates were low and finance was plentiful. The snag is that to qualify for mortgage relief, borrowers have to be up to date with their payments, and most are

Most mortgage holders stopped servicing their debts last year, when the financial turnoil triggered by the 1994 peso devaluation led domestic interest rates to shoot above 100 per cent.

That was when Mrs Maria Ramírez, a matronly teacher in her 50s, stopped servicing her 80,000 peso (\$10,500) mortgage. A year on, with interest penalties and a host of other charges and commissions, she owes her bank 340,000 pesos, a sum which far exceeds the value of her modest dwelling. "There is no way I can service this debt," she said as she joined a queue

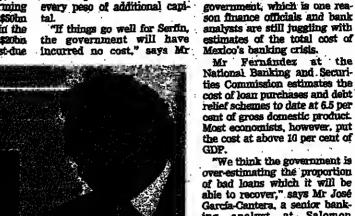
outside the offices of El Barzón considered current. By conin Mexico City. Officials concede that relief

schemes implemented so far have met only partial success. "Rach time we have introduced a new relief programme, we thought it would be the last," says Mr Javier Gavito, a vice-president at the National Banking and Securities Com-

trast. US banks must record the entire loan as past-due if no payment has been received for 90 days. "If Mexican banks had to

adopt US standards today, the true level of non-performing loans would be closer to \$50bm - half of the total loans in the system - rather than the \$20hn which are considered past-due

take advantage of a relief acquisition of Banco Mexicano, scheme in which banks can another medium-sized bank sell their bad loans to the govermnent if shareholders inject fresh capital into the bank. The ratio set by bank regula-tors is 2 pesos of bad loans for every peso of additional capi-



He blames the prolonged recession, now in its 18th month, high inflation and high interest rates for undermining the effectiveness of debt relief programmes. But his biggest nightmare is the "Can't Pay. Won't Pay" culture which has

taken hold in Mexico. Other interest groups are now clamouring for special attention, including the farming lobby, expected to get its own debt-relief programme before the end of the month. Smaller businesses are next in

The banks themselves, meanwhile, need help to keep loans current as they prepare for the introduction of US accounting standards early next year. At present, Mexican banks only record as past-due loan instalments not paid after 30 days,

at present," says Mr Rogelio Ramirez de la O, an economist with Ecanal consultants in

Seven banks have collapsed since late 1994 and required government bailouts. An eighth, Serfin, the third-largest, narrowly escaped central bank intervention, but only because the government was willing to guarantee \$710m of emergency credits from JP Morgan of the US and ING Barings of the Netherlands to strengthen Serfin's capital.

The credits have given Serfin's controlling shareholders, which include Grapo Vitro, the giass manufacturer, a year in which to find a foreign partner to recapitalise the bank. Hongkong and Shanghai Bank is

In addition, the emergency capital has allowed Serlin to

Eduardo Fernández, Mexico's chief bank regulator. "If things go badly, we take over the

So far, the government has bought 87bn pesos of bad loans from 11 distressed banks, which are now in the process of extracting more money from existing shareholders or selling large chunks of their has nesses to foreign takers to meet capital requirements. Banco Bilbao Vizcaya of

Spain acquired Probursa, Mexico's 12th-largest bank in June. Last week, it consolidated its position by signing a letter of intent to purchase Banca Cremi, a failed mid-size bank under government con-

Bank of Nova Scotia took control of Inverlet, the fifthsaid to be negotiating the

US NEWS DIGEST

Karadzic charges

The US Supreme Court yesterday roled that women raped and tortured during the war in Bosnia could file charges in the US against Mr Badovan Karadzic, Bosnian Serb leader, for crimes against bumanity, Laura Silber reports from Belgrade.

Mr Fernandez at the The court turned down Mr Karadzic's defence that be could not be seed because be is a private critican and none of the alleged crimes were com-mitted in the US.

Most economists, however, put The ruling comes against a background of failed internathe cost at above 10 per cent of tional efforts to unseat Mr Karadzic, indicted for war crimes by the UN tribunal in "We think the government is over-estimating the proportion of bad loans which it will be The Hague.
It coincides with reports from the Moslemied Bosnian able to recover," says Mr José García-Cantera, a senior bank-ing analyst at Salomon Brothers in New York, whose

government that international government that international mediators have struck a deal paving the way for the Ros-nian Serb leader to step down before Bosnian elections, due to be beld in September.

Yesterday the tribunal dis-missed charges against Mr Goran Lajic, a Bosnian Serb least five Moslem prisoners, because of mistaken identity.

Rash of church fires continues

Fire destroyed a black church in south-eastern North Carolina yesterday, the second such fire in the state in less than two weeks, Reuter reports from Rocky Point.

A fire yesterday also badly damaged a former sanctuary at a church in Georgia with a nostly white congregation. A rash of church fires, most

at predominantly black churches, has touched off anxieties that a conspiracy or copycat crimes may be

Helms-Burton undermines international investor climate, says Ottawa

Canada retaliates against US law

By Bernard Simon in Toronto and Guy de Jonquières in London

Canada yesterday became the first country to retaliate against US legislation which would penalise foreign companies doing business in Cuba.

unveiled several measures designed to discourage US companies from taking action against Canadian companies and their

Mr Eggleton spoke as the US published official guidelines for enforcing Title 4 of the Helms-Burton Act, which permits the US to deny entry visas to executives of foreign companies which have "trafficked" in confiscated property in Cuba.

Mr Eggleton said Ottawa would call for a meeting of the ministerial commission set up under the dispute settlement provisions of the North American Free Trade

Agreement: Canada contends that the nothing to encourage trade liberalisation." entry ban violates Nafta guarantees on free travel between the two countries.

Ottawa also plans to tighten the Foreign Extraterritorial Measures Act, which allows Canadian companies to ignore US court rulings. The changes would clear the against assets held in Canada by US complainants. Canadians would also be able to countersue in Canadian courts for damages awarded in the US.

However, the amendments will not be presented in parliament until President Bill Clinton decides later this summer whether or not to waive parts of the Helms-Burton law.

Mr Eggleton said Helms-Burton, named after its Republican sponsors in Congress, "takes aim at [the US's] foe, and then shoots its friends. It undermines the international investment climate and does

Although foreign investors have lobbled the State Department intensively to make the guidelines as precise as possible, some said yesterday that some provisions of the final version were vague and ambiguous.

Concern centres particularly on a proviapplied to "corporate officers of a parent or subsidiary. . . if they perform policymaking functions for the entity". Some foreign investors fear the provi-

sion could entitle the US to expel managers of the US subsidiaries of foreign companies, as well as to deny entry to senior executives of the parent companies.

They also complain that the guidelines

do not define exactly the circumstances in which a company having "business dealings" with a company found guilty of "trafficking" would also be covered by the

Cuba confident of growth despite US legislation

Cuba's economy has been boosted by advances in tourism and in sugar and nickel production, and is maintaining help to counter the impact of US legislation aimed at discouraging foreign investment on the island, the government

has announced. Vice president Carlos Lage said the economy was expected to sustain in the first six months of this year the 7 per cent growth in gross domestic product achieved in the first

We can say that, in spite of the Helms-Burton Law, the

rhythm of recovery," Mr Lage told a meeting of Latin American parliamentarians st the

He acknowledged that the Washington on March 12. which threatens penalties against foreign investors who "traffick" in expropriated, formerly US-owned properties in Cuba, could slow the pace of

foreign investment. However continuing eco nomic recovery, coupled with growing international condemnation of the US legislation, would help to limit the effect of

Mr Lage said an improved

1995/96 sugar harvest - 4.45m tonnes so far this season compared with last year's record low crop of 3.3m tonnes - had contributed to this year's growth. Tourism was also gainon track for a record output of 50,000 tonnes in 1996.

The government has set an official target of 5 per cent GDP growth this year, following 2.5 per cent reported for 1995. Foreign analysts say the growth figures must be seen in the context of the depressed state of the economy, the result of a severe recession which pushed down GDP levels by nearly 35 per cent between 1989 and 1993.

Boost for tobacco courts campaign

blowers revealing the industry's alleged practices is helping states seeking to suc tobacco companies for smok-ers' healthcare costs, Mr Mike Moore, Mississippi attorney general, said yesterday, Reuter reports from West Palm Beach.

Mr Moore, the first state attorney general to sue the tion conference that be had also been contacted by lawyers in South America, Australia, Canada and Britain about filing cases against tobacco com-

He said the attack on the tobacco industry was growing with the emergence of the whistleblowers and with steadily increasing interest by states, cities and foreign countries in sulng cigarette mak-

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Yearly figures are shown in index form with the common base year of 1965. The real exchange rate is an index throughout other quarterly and my change over the corresponding period in the previous year and are positive unless otherwise stated. M UNITED STATES M JAPAN May . Acquest 1000 107.5 110.8 107.6 110.0 107.6 110.0 111.6 110.0 115.1 Products pulses 100.0 95.3 92.5 94.2 95.7 96.8 95.9 94.3 92.6 92.0 100.0 103.8 107.8 112.6 117.1 123.5 131.3 138.2 145.6 150.8 100.0 98.6 100.7 103.2 108.5 113.9 118.3 117.7 119.2 119.8 122.2 100.0 100.9 101.3 102.4 105.1 108.4 111.9 114.0 115.4 118.2 115.8 100.0 102.1 103.9 106.8 108.9 113.5 117.8 120.1 123.1 126.5 129.5 100.0 101.4 103.1 107.8 114.0 120.1 124.2 125.6 125.8 128.4 132.5 100.0 102.8 100.0 96.0 96.9 99.7 103.9 112.8 118.9 118.5 116.1 100.0 99.9 100.1 101.4 104.2 107.0 110.9 116.8 121.7 125.1 127.4 1986 1986 1987 1988 1989 1990 1991 1992 1993 1994 1985 100.0 85.0 76.1 71.0 74.9 73.2 74.1 74.0 76.4 74.3 68.7 100.0 118.5 122.8 131.0 123.5 106.2 113.2 114.5 131.8 137.4 138.3 100.0 103.8 107.1 105.9 106.0 110.3 115.0 121.5 126.9 116.1 101.9 2nd qtr.1900 8rd qtr.1905 4th qtr.1995 1st qtr.1906 -0.5 -0.7 -0.5 -1.8 86.5 68.4 69.8 71.8 -0.1 -0.2 -0.8 -0.3 -0.5 -0.7 -0.7 23 37 32 1.8 151,4 136,9 126,3 122,1 -3.3 -0.1 -0.7 -0.8 1.8 1.9 1.8 0.2 1.9 1.7 1.7 1.8 118.1 114.5 114.7 112.4 21 13 18 21 23 22 24 25 28 23 28 28 26 25 27 34 27 22 34 01.41.999558188 90054554499 900745544499 0.9 6.5 0.3 2.3 2.3 1.2 4.3 -0.1 3.0 2.7 205122355359 2051223535359 150.8 145.2 136.3 129.2 127.2 125.6 126.2 122.3 122.0 121.8 120.8 122.8 1.8 1.8 1.7 1.8 1.7 1.8 1.5 1.7 1.5 1.7 1.5 20 1.8 1.8 1.9 1.2 0.0 -0.2 -0.3 -0.5 1155 116.1 114.2 113.8 115.5 - 114.7 114.0 112.9 112.5 111.8 UNITED KINGDOM 100.0 103.4 104.7 102.2 99.7 103.0 100.6 106.8 106.3 106.3 100.0 101.4 104.9 108.7 113.9 100.0 94.5 101.5 1 100.0 106.1 107.5 110.3 115.1 122.7 120.6 130.6 130.4 130.1 100.0 104.5 107.8 111.1 115.4 120.6 125.8 130.3 133.5 135.9 138.0 100.0 106.1 111.0 116.5 124.2 131.7 140.3 147.7 153.8 160.0 168.6 100.0 100.2 103.2 106.8 118.1 117.6 121.7 124.0 128.7 133.5 143.9 100.0 104.8 111.8 118.4 125.6 134.7 147.9 155.8 181.8 167.0 172.2 100.0 102.7 105.5 109.7 112.3 118.8 128.5 134.4 136.7 137.9 100.0 101.8 102.2 100.9 105.3 112.0 113.2 108.8 95.4 90.5 100.0 103.4 107.7 113.0 121.8 133.3 141.2 148.4 148.7 152.4 157.6 98.0 98.1 102.9 108.2 107.1 105.9 104.3 101.8 102.7 109.7 190.0 197.7 118.3 126.2 137.2 150.1 162.4 173.1 180.9 188.5 197.9 9.9 7.8 3.3 1.6 1.8 1.9 2.1 22 26 26 26 5.5 5.7 5.9 5.0 8.8 9.0 7.2 4.6 105.8 2,3 3,6 3,8 3,3 3.2 8.2 3.4 3.7 3.2 2.8 106.4 107.2 108.7 4.7 4.3 3.9 4.4 28 32 42 38 1.8 1.5 105.4 106.3 106.4 106.6 107.6 107.1 107.1 106.5 106.4 5.8 5.8 5.8 5.9 5.5 5.0 5.5 5.0 4.5 4.5 4.5 4.5 235 34 39 39 39 32 32 34 89.0 3.5 3.5 3.9 3.1 3.2 2.7 2.7 2.4 2.2 2.5 4.0 2.8 3.9 4.2 4.6 2.9 4.2 3.6 3.0 89.4 92.5 94.1 92.5 93.4 95.0 97.1 98.7 99.4 100.8 103.1

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

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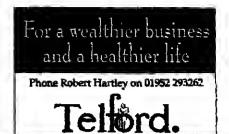
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Tuesday June 18 1996



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IN BRIEF

Deutsche Babcock warns of big loss

Deutsche Babcock, the German engineering group struggling to restructure many of its lossmaking activities, warned it expected operating losses of up to DM300m (\$197m) for the current year which ends on September 30. Page 17



Former Chiroscience chief in legal action
Mr Nowell Stebbing (left),
one of the UK's best known pharmaceutical entrepreneurs, is taking legal action against Chiroscience, the company he steered to a stock market flotation in 1994. His writ against Chiroscience, one of the London stock market's strongest performers this year, alleges he was wrongfully dismissed as deputy chairman last

Angust. He is also claiming damages for the wrongful removal of share options worth £3.5m-£5.5m (\$5.35m-\$8.4m). Page 21

Japan Tobacco offer set at 3% discount The price for the second offering in shares of Japan Tobacco, the country's sole tobacco company, has been set at Y815,000 per share, representing a 3.1 per cent discount on yesterday's closing price of Y841,000 a share. The sale will be worth about Y222bn (\$2.04bn). Page 16; Excise dispute forces dividend cut at ITC, Page 16

Mediaset head says float will fund growth The chairman of Mediaset, Mr Silvio Berlusconi's media company, said the group's forthcoming flotation would help "democratise" the Milan stock exchange, and fund further expansion in new mar-kets and sectors. Page 17

Deutsche Telekom supervisory head quits Deutsche Telekom, which is due to engineer Germany's biggest stock exchange listing later this year with a DM15bn (\$9.8bn) share issue, is losing Mr Rolf-Dieter Leister, the long-standing head of its non-executive supervisory board, who said he would step down on July 1. Page 17

Compaq plans broad range of laptop PCs Compaq Computer aims to get back to its roots as one of the first manufacturers of portable personal computers with the introduction of a broad new range of laptop PCs. Page 18; Sony set to enter US bome PC market, Page 16

Forte finance chief to Join WH Smith Mr Keith Hamill, widely admired for his part in the UK hotel group Forte's defence against Granada's £3.9hn (\$5.96hn) hostile bid, is to become finance director of W.H. Smith, the UK retailer. Page 20

Trans-World Metals climbs producer table Trans-World Metals has become the world's thirdlargest aluminium producer. This revelation came from Mr Alan Bekhor, managing director of the UKbased group previously best known as one of the world's biggest traders of the metal. Mr Bekbor's remarks came during the first world aluminium conference organised by the Financial Times and the CRU International consultancy organisation.

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Lufthansa shares slide after warning

By Wolfgang Münchau in Frankfurt

Lufthansa, the German airline, warned yesterday that business this year had been unsatisfactory. The statement was seen as signalling a large loss for the sixmonth period to end-June.

OTHE FINANCIAL TIMES LIMITED 1996

The warnings suggest the much-hailed turnround in tha company's financial fortunes has come to an abrupt end. The company suffered beavy losses in 1991 and 1992, returning to profit only in 1994. Last year, Lufthansa made e pre-tax profit of DM756m

Sbares in the airline fell

DM11.20, almost 5 per cent, to DM223.80, on the announcement. "Price cuts and overcapacity,

especially among state-subsidised European air carriers, have resulted in a reduction in the seat load factor. So far, the finan-cial year 1996 has not proceeded satisfactorily for Lufthansa. Traffic data and financial results are, so far, below plan," Lufthansa

Lufthansa'e statement came in response to an article in Súd-deutsche Zeitung, which claimed that Luithensa had suffered an operating loss of DM200m for the first five months of the year. Lufthansa yesterday declined

to comment on the figure, it said
it would make a fuller statement the airport's temporary closure about its operational performance at its annual shareholders meeting on July 3.

Airline analysts were surprised by yesterday's developments. One called the announcement a "Monday sbock", while others have downgraded the shares from e buy recommendation to a hold or e sell recommendation. Mr Hartmot Mörs, analyst et WestLB, the German bank, said the main causes for this announcement were the competitive environment; and the move

the airport's temporary closure earlier this year had also affected the airline. However, he thought the final

six-month figure "will not be as good as one previously expected but not as bad as it is now Last month, Mr Jürgen Weber, chairman, criticised subsidies

being paid by some European governments to national carriers. He was particularly critical about aid paid to Air France and Iberia, the Spanish airline.

Lufthansa yesterday reiterated by sobsidised airlines towards its determination to reduce total lower margina. He said the fire at costs by DM1bn over the next

15, an attempt to reduce unit cost per kilometre by 20 per cent to under 15 pfennies.

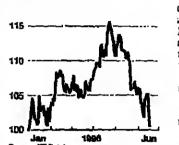
In May, Lufthansa said that it

had made a DM49m operating loss in the first three months, oo turnover of DM4.6bn.

• Lufthansa yesterday said its Lufthansa Cargo unit posted a loss in the first quarter, without

giving further details, AFX reports from Frankfurt. Sales in the period totalled DM788m, down 2.8 per cent from a year earlier. The general weak-ness in the global economy at the end of 1995 continued into 1996, the group said. Lufthansa

Share price relative to the Dox Index



In 1995, Luftbensa Cargo reported a pre-tax profit before extraordinaries of DM20-tm. World stock markets, Page 34;

Outlook for this year marred by weak markets, steelmaker warns

British Steel rises 90% to record £1.1bn

Industrial Editor

British Steel, the UK steelmaker, yesterday reported a 90 per cent increase in annual pre-tax profits to a record £1.1bn (\$1.6bn) last year, due to acquisitions and strong demand. However, it warned this year's results would be hit by weak markets in

Sir Brian Moffat, chairman and chief executive, tried to put a positive gloss on the outlook for tha year to next March and predicted that prices, which have fallen by about 20 per cent since last autumn, would begin recov-ering from September.

However, analysts warned that the steepest decline in European steel prices since the recession of the early 1990s could still have further to run. "The short-term outlook is grim," said one, "and the long-term is uncertain."

Mr Peter Fish, managing directar of Meps (Europe), a consul-tancy, said: "If speedy action is not taken and output is not curtailed, the price slide could continue into 1997. Many mills were [output cuts] would have solved the problem. Unfortunately, we think that this was an optimistic viewpoint. The production curbs, in our opinion, are not yet suffi-

Sir Brian said that as a lowcost producer, British Steel would still see "satisfactory per-formance" in 1995-97. The company was also benefiting from the general competitiveness of the British economy, he said.

Sir Brian indicated the company saw last year as the peak of the current cycle, when earnings were buoyed by strong demand and high prices in the first half. Pre-tax profits were the highest since the £708m achieved in

1989-90, just before the recession

pushed British Steel into loss for

two successive years. Sir Brian said stock cutting by producers and steel users had hit prices, particularly in continental Europe, in the second half of last year. But in the UK, British Steel's biggest market, stock reductions were completed and demand would follow the US,

where it was recovering fast.

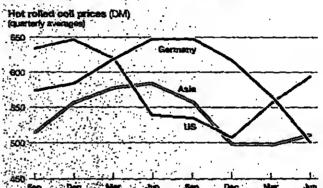
In France and Germany destocking was "finishing off" and would be completed by the end of summer. "Inevitably, however, with the present weakness in market demand in Europe, and the accompanying impact on prices, profits for the current year will be adversely affected but I still expect a year of satis-factory performance."

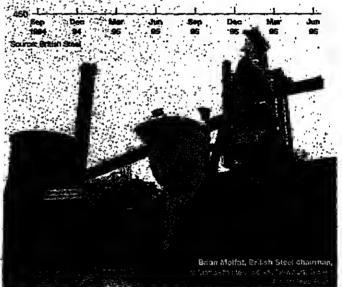
The recent weakness in the market dates back to last year when prices rose sharply in response to stock shortages and fears of a possible general increase in raw materials prices. With long-standing over-capacity, western European mills eas-

ily mat the surge in demand, helped by a flood of imports from eastern Europe. Imports into the EU rose 30 per cent last year, while exports dropped 20 per

EU producers met demand by diverting exports to the home market and raising output by 4m

Steel prices lose their shine





tonnes to 156m tonnes, according ing Steels, and of Avesta Shefto Eurofer, the European steel industry organisation. Consumption rose to 149m tonnes, up from 135m tonnes, but the figure includes an estimated 10m tonnes

of stock-building. Eurofer warned that "the disproportionate growth of imports from the CIS states and central European countries is a matter of serious concern".

British Steel's profits increase was buoyed by the acquisitions of full control of United Engineer-

field, the stainless steel produces where British Steel increased its stake to 51 per cent.

Together, these two companies contributed £359m to pre-tax profits in 1995-96, compared with £116m the year before. Setting aside these companies, profits rose 65 per cent to £763m. Overall, turnover increased 47 per cent to £7.05bn. Excluding the acquisitions, turnover rose 10 per cent to £5.25bn. Lex, Page 14; Details, Page 20

Disney to halve film output to

By Christopher Parkes In Los Angeles

Walt Disney is to halve its film output in what is seen as Hollywood's most significant step to bring supply, demand and quality of movies back into line with market needs.

Although Disney is the first to make e formal announcement of cuts, Viacom, owner of Paramount, earlier this year announced a more "cautious" approach to movie-making. MCA. recently acquired by the Seagram drinks group, last year made hefty write-offs of scrapped development projects.

The reduction at Disnay to about 20 films a year was foreshadowed in April when the entertainment group cancelled an unspecified number of half-developed titles et an estimated writeoff cost of \$60m.

Since then, commercial data have confirmed anecdotal evidence the US industry is heading into trouble.

The number of releases rose 9

per cent last year to 426 films, production and marketing costs rose more than 10 per cent, while box office receipts in the core North American market rose only 1 per cent. At the same time, the hunt for

hit-making star names intensified with movie contracts worth \$20m - more than a third of total averthe likes of manic comic Jim Car-

"This is the first positive move from the industry in a long time," said Ms Jessica Reif, a senior analyst at Merrill Lynch.

20 titles a year action which could avert disas

> "The only surprising thing about Disney's write-downs was that they weren't bigger," she said, referring to the projects cancelled in April.
>
> Mr Joe Roth, bead of Disney
> Studios, said at the weekend: "1

don't see the quality of screenplays and stories and marketing ... and economics justifying 40 films a year." Some observers saw the cuts as an admission that Disney's strat-

egy of bludgeoning the competition with cheap and cheerful vol-ume had failed. It was also viewed as an effort to sharpen its focus on family entertainment while rejoining the mainstream in adult entertainment, Its latest release, The Rock, an

action adventure starring Sean Connery, is untypical of Disney in that it features big name actors. It has grossed \$60m after less than two weeks on release and is already marked as one of the season's successes. A live-action version of 101 Dalmatians, due later this year, will be supported and exploited with a range of consumer products and theme park gimmicks

The Disney tactic is the first big change since Mr Roth wa appointed studio head 18 months ago. The tightening of Mr Roth's grip on movie-making at Disney is underscored by plans to con age production costs - offered to sider closing Hollywood Pictures. a subsidiary devoted to lowbudget light entertainment.

Other studios would have to fol- Roth at the head of a slimmed low suit because it was the only management group.

Goldman Sachs doubles to \$709m in second quarter

Goldman Sachs, the last big privately held investment bank on Wall Street, yesterday posted its third strongest quarterly earnings ever for the second quarter ended May 31.

Pre-tax profits were \$709m, up 25 per cent from \$565m in the first quarter and more than double the \$346m it made in the corresponding period last year when Wall Street began to bounce back from the difficult market conditions of 1994.

The results mark Goldman's sixth consecutive quarter of earnings growth after a rocky period of falling profitability and even quarterly losses in 1994 that followed the firm's best year

Goldman's best quarterly performance was the third quarter main brokerages to be in line or

of 1993 when it made \$928m. The earnings growth in the second quarter of this year came from "across the board strength" in banking, equity and bond divisious, said Mr John A. Thain, Goldman's chief financial officer.

Mr Thain was cautious about the firm's results until the end of this year. "Our results are highly dependent on US financial markets," he said. Goldman's results may presage

a strong second quarter across Wall Street where many analysts expect booming activity in merg-ers and acquisitions and public offerings to offset challenging conditions in bood markets.

Ms Sallie Krawcheck, who follows the securitles todustry for Sanford C. Bernstein, the Wall Street investment bank, expected

in the first quarter despite a rise in US interest rates.

"Interest rates have gone up so companies have not issued as much debt but they've been issuing more equity," she said. "The conventional wisdom is that when rates go up earnings (at the investment banks) go down and I'm not so sure that still bolds these days."

Goldman's earnings came on revenues net of interest of revenues net of interest of \$1.87bm, compared with \$1.46bm in the first quarter, with expenses rising 7 per cent to \$961m from \$899m. Equity capital stood at about \$5.2bm.

Earlier this year, pariners at the firm decided against going public to raise new capital, but last month they voted to convert the partnership to a limited liability commany.

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AsiaSat draws heavy HK demand

shares from the North American

Kong. But a further 15.79m may

and international offerings.

second-quarter results et the

By John Ridding in Hong Kong

The flotation of Asia Satellite Telecommunications has been strongly backed by Hong Kong investors, with the tranche allot-ted to the territory oversubscribed 100 times, the satellite consortium announced yesterday. AsiaSat is owned in equal parts

by three companies with telecoms interests: Cable and Wireless of the UK, Hutchison Whampoa of Hong Kong and Citic, the Chinese flagship investment vehicle. The three have been with AsiaSat since its inception in 1988 and have drawn no divi-

(US\$271m) flotation, AsiaSat said

be offered in case of axcess demand in the North American and international offerings. AsiaSat said subscription levels for these tranches would be announced shortly. Market sources claimed, however, that

these issues would also be heavily subscribed. Trading is due to start in the US today and Kong issue, which represents about one-tenth of the HK\$2.1bn (US\$271m) flotation Arichites and the Karley and t

mean a reallocation of 5.26m tions. "Wa are seeing steady growth in demand from traditional players such as the big telecoms operators, but also from emerging players and media companies," said a Hong Kong telecoms analyst.

Altogether, 105.3m shares, or about 27 per cent of the capital, are to be sold as part of the flotation in New York and Hong Under the terms of the offer, lead managed by Goldman Sachs, 105.3m shares will be offered by C&W and Citic Hutchison is not selling shares in the offer, but has put and call options with Citic. If these are exercised, it will sell part of its holding to Citic and both will end up with

an equal stake in AsiaSat. AsiaSat owns and operates two satellites, both of which were launched by Chinese rockets. AsiaSat 3, due to be operational late next year, is to be launched by result of strong expansion in Russia's Proton system. A furbroadcasting and telecommunica- ther satellite is due in 1999.

Japan Tobacco share offering priced

By Emiko Terazono in Tokyo

The price for the second offering in chares of Japan Tobacco, the country's sole tobacco company, has been set at Y815,000 a share, representing a 3.1 per cent discount on yesterday's closing price of Y841,000 a share. The sale will raise about Y222bn (\$2.04bn). The ministry of finance will this week offer 272,390 shares which remained unsold at the company's initial public offer-ing in 1994, when it offered 666,666 shares, or one-third of the ministry's holding, at Y1.44m a share. Of the second tranche, 35,000 shares will be

The government said expressions of demand for the stock were greater than expected, but with the price set lower than the stock'e close vesterday, it could prompt further selling on the Tokyo stock

The government conducted its first "bookbuilding" for the JT offer, setting the price after canvassing investors for potential demand. The move was e response to increasing criticism of the auction method used to fix the offering price in previous share sales. The auction method - where the price was fixed after an auction among domestic institutional investors - has tended to make the chare price fall on the stock market.

Fears of over-supply have depressed JT stock since Nomura Securities and Gold-man Sachs International, the UK arm of the US investment house, started listing prepara-tions. The shares have fallen 9 per cent this month.

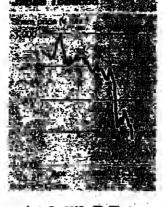
The announcement comes as the government seeks to release stocks of other stateowned companies to increase its revenue. The ministry of finance still owns two-thirds of Nippon Telegraph and Tele-phone, the telecommunications group, while the ministry of transport wants to list the railway companies created in 1987 when Japan National Railways was broken up.

companies, yesterday said it had filed its listing application with the country'e stock East Japan Railway (JR East) was listed in 1993, but the ministry was forced to postpone further listings because of a sluggish stock

Of the six railway groups

awaiting privatisation, West Japan Railway (JR West), the

second largest of the eeven



unable to meet listing criteria because its earnings were hit by damage caused by the Kobe been shifted, holds all 2m shares in JR West. It says it plans to list the company later this year, but a date has not home PCs

been set. Despite the Tokyo stock market's recent strength, some investors fear the recovery is not sufficiently strong to bear a deluge of new equity, In addition, the govern-

ment'e poor track record on share offerings does not help investor confidence. The JR East listing in 1998 caused the Tokyo stock market to fall sharply, while the JT offering also raised fears of over-supply and triggered heavy sellin investors sold stocks of state-owned companies on the Tokyo stock market yesterday, with JR East down Y1,000 to Y589,000 and NTT declining

JNR Settlement Corporation, to which the debt, stock and Y9,000 to Y806,000. Excise dispute forces dividend cut at ITC

By Kunal Bose in Calcutts

ITC, India's largest tobacco group in which BAT, of the UK, has a stake of almost 32 per cent, yesterday announced se in pre-tax profits but a sharp cut in its dividend. The lower dividend was in part the result of an ongoing dispute over excise payments. ITC has also resolved some of its disputes with BAT, which has resulted in manage-

Pre-tax profits rose to Rs4.52bn (\$129.5m) in the year to March 31, from Rs4.02bn a year earlier. But a much higher provision for tax, 1987. The company has filed an year "was strong and well

pushed net profits down from Rs2.62bn to Rs2.61bn, while sales rose from Rs47.08bn to Rs51_99bn. Many analysts had forecast net profits of more than Rs3.5bn, and ITC shares closed Rs24 lower at Rs301.

The dividend is being cut to Rs2.5 a share from last year's Rs5. ITC blamed the reduction on a Rs1.7bn deposit left with the country'e excise authorities, related to a dispute. India's Commissioner of Cen-

tral Excise claims the company and its contract manufacturers had not paid excise duty totalling Rs7.99bn for the period January 1 1983 to February 28

authoritiee, however, have directed the company to deposit, in instalments, Rs3.5bn of excise duty by January 1 1997. Costs associated with

restructuring the agribusiness and international operations also influenced the cut in the payout The company recorded strong growth in its core busi-ness of cigarette and tobacco.

But the recession hit its speciality paper business. Foreign exchange earnings amounted to nearly Rs10bn. It said business so far this

ahead of the previous year" Mr Yogesh Chander Deveshwar, who became chairman in January despite strong opposi-tion from BAT – but with the backing of Indian financial institutions which own 38 per cent of ITC - has been able to win BAT's confidence, according to company sources.

With tacit support from BAT, Mr Deveshwar initiated a ment restructuring last week which gave the audit department "independence and autonomy". The company also created two new posts of financial advisers "who will provide support to all the executive

According to company sources, BAT will now have the assurance that there will he an effective check on all financial transactions. Three of the nine executive

directors will be retiring in the near future, and Mr Deveshwar has begun reallocating roles. One change involves Mr Saurabh Misra, deputy chairman and regarded as a BAT favourite. He has been made responsible for guiding the paper, agribusiness, international trade and printing and packaging divisions, on top of his current responsibilities for tobacco and leaf

Beijing pilots Dragonair to clearer skies

CNAC's involvement, plus freedom from Cathay Pacific, should benefit the carrier HK\$912m this year, up from last year's HK\$722m.

Droof that expansion at Dragonair, Hong Kong's ambitious second carrier, would gather momentum after it came under mainland control has not taken long to materialise.

Last week, days after the new share ownership structure was approved. Dragonair secured an additional five routes in China and more in

As part of a landmark Hong Kong-Taiwan air services pact, operate 21 flights a week on the route between Hong Kong and Talwan's southern port city of Kaobslung. This route is said to be the fifth busiest flown by Cathay Pacific, the colony's de facto flag carrier and erstwhile parent of Drago-

The agreement, held up for almost a year by three-way political wrangling - Beijing, Hong Kong and Taiwan all having their own agendas -came days after China tightened its grip on Dragonair. The combination of these

two events suggests the carrier is on course for rapid expansion and will increase interest in its flotation, planned for later this year or early 1997. Under the shareholder restructuring, China National Aviation Corporation (CNAC), the commercial arm of China's eviation regulator, obtained a 36 per cent stake in Dragonair for HK\$1.97bn (US\$254m).

Another 28.5 per cent is owned

by Citic Pacific, the Hong Kong arm of Beijing's main invest-

ferred passenger carrier for flights into the mainland, having CNAC on board is seen as a big plus, Dragonair now flies to 14 cities in China, and last week's agreement increases the likelihood that further destinations will follow now that the mainland aviation regulator is a shareholder. Moreover, analysts see

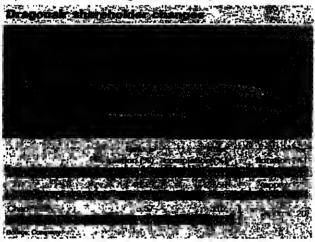
For Dragonair, long the pre-

growth opportunities across the fast-growing Asia-Pacific region, now Dragonair is out of Cathay Pacific, with Citic Pacific, swooped on Dragonair in January 1990 and has since managed it as a complemen-tary sirline. Until then it had been a vigorously independent

Hong Kong carrier. Now Cathay Pacific and its parent Swire Pacific have cut their stake from 43.16 per cent to 25.5 per cent, with the result that Cathay can no longer carve up the spoils and Drago-nair may itself apply for new

Mr Declan Magee, analyst with HG Asia in Hong Kong, notes: "Sovereignty is changing [Hong Kong reverts to China in June next year] and it may be difficult to say 'no' to China-backed requests for new routes. Given there's no-one batting for Cathay Pacific's interests. I imagine Dragonair will have a lot more implicit power in terms of being favoured ahead of Cathay

Lucrative routes include those between Hong Kong and Taipei, Tokyo and Singapore but, as Ms Eisha Cheng, avia-



tion analyst at Lehman Brothers in Hong Kong, points out, the heavily regulated environment means most routes within Asia are high-yielding and profitable.

To date, the colonial government has operated a general policy of one airline, one route. The government recently told legislators the rule would be reviewed "only in circumstances where it was judged that more competition was needed in the public interest and that the traffic was suffclent to sustain operation by more than one Hong Koog air-. line". The incoming administrators, however, may well take a different view.

Mr Koo Zayong, aviation analyst at CS First Boston in Hong Kong, says: "In other countries we have seen a lot of second national carriers coming up and sharing some of the profitable routes, so I believe that is probably what's going to be happening here. It will definitely help consumers, and: it will push for airlines to

ven based on Drago-nam's existing routes, the company'e forth-coming share issue has its fans. We're unlikely to see the investment bankers price this one too low. It has a lot of potential to expand its business in China," says Mr Francis Wong a fund manager at: IDS Fund Management, a wholly owned subsidiary of American Express.

The market is looking at a

become more efficient."

prospective price earnings ratio of 12-15 times, which could value the airline at HK\$13bn-HK\$14bn. CNAC obtained its stake for only 7.2 times historic earnings, on Mr' Magee'e calculations: he is.

assume Dragonair will be priced at a premium to Cathay - reflecting its greater growth potential, which comes at the expense of Cathay Pacific. Possible problems for the air-line include likely changes in management and among employees, as those seconded

The obvious benchmark for

pricing is Cathay Pacific, now

trading on a p/e multiple of 14

times historic earnings. Many

Cathay return. But CNAC's aggressive recruitment drive before the shareholding restructure - when it still nurtured its own ambitions to set up in Hong Kong - will fill a lot of the gaps. In addition, fur-ther executive personnel may be poached from other corpo-

The timing means the float will be against a background of improving fortunes in the world aviation market. In any event, it will give investors an opportunity - which has eluded them in the past - to buy into China aviation. China earmarked two of its carriers, China Eastern and China Southern, for overseas listings more than two years ago but both flotations have falled to materialise.

As Mr Magee, at HG Asia says: "If you have got the regulator in the driving seat, so to speak, you are going to have lots of routes open to Drago nair at a time when the new and bigger - Hong Kong air-port is coming on stream."

Louise Lucas

Petronas chief targets Africa for expansion

Petronas, Malaysia's stateowned oil company, plans to use its proposed purchase of a 30 per cent stake in Engen, a South African oil refining and marketing concern, as e "beachhead" for expansion into the African continent.
Mr Hassan Marican,

Petronas president, said yesterday the prospective partnership was likely not only to expand the group's oil sales but would facilitate growth through joint ventures or by other means in Africa

"We have been interested in the African continent. Engen, being close to Africa, will know the business," Mr Has-san said. "South Africa will provide us with a beachhead into the African continent." initially, for example, the new partnership will expand the number of petrol service stations from the 84 which Engen runs outside Sonth Africa, in Botswana, Namibia, Lesotho and Swaziland. Further growth may come from new refining joint ventures and exploration projects in the

African and Indian Ocean rim,

The planned purchase, esti-mated to cost about US\$436m, is ground breaking in many senses. It is the biggest foreign investment in South African history and the largest yet by the Malaysian company. Petronas is to become the big-gest eingle chareholder in Engen, will occupy two seats on its board, and be included in all important decisions. Petronas said South Africa's appeal was that its market is not dominated by large multi-

national groups and domestic

demand for oil products is

growing at between 5 and 8 per

Engen, which was courted by Mobil Oil of the US and France's Elf Aquitaine, chose Petronas as its partner because the highly profitable Malaysian company is wealthy enough to finance ambitious growth, but not so big as to subsume the South African company, according to Petronas. Analysis said clear synergies

existed between the two part-ners. Petronas, which had net profits of M\$4.56bn (US\$1.83bn) in the year ended March 31 1995, is a significant capacity in Malaysia to 240,0 upstream oil and gas producer with investments in several parts of Asia, but which

wishes to project itself further

Engen owns the second-large est crude oil refinery in South Africa with a capacity of 105,000 barrels a day, and has a network of 1,350 eervice

In Asia, Petronas is poised for considerable growth as it builds an infrastructure to process and sell more widely an average output of 630,000 b/d

It is due to increase refining capacity in Malaysia to 240,000 b/d in 1997-98 from a current 140,000 b/d, following the con-

ING Australian unit in bid for Pacific Mutual

By Nikki Tait in Sydney

Mercantile Mutual, the Australian insurer owned by the Netherlandsbased ING group, is making a ASSEM (US\$77.6m) bid for Pacific Mutual, the listed Sydney-based financial services

Pacific Mutual embraces life insurance, pension-related and fund management operations, and spans Australia and New Zealand. Its products, which include property trusts, are generally marketed in Australia under the Arm-strong Jones name. Funds under management stand at about A\$2hn.

takeover candidate after MMI, another quoted Australian insurer, said in January that it no longer wished to remain a strategic shareholder. MMI holds more than 30 per cent of Pacific Mutual's

Shortly after that announcement, MMI called in HZW Australia to advise on how this stake might be disposed of. Pacific Mutual said in a statement to the stock exchange yesterday that, while Mercantile Mutual had been one of the companies which had done "due diligence" as a result of MMI's decision, "Mercantile Mutual decided not to make an offer under the tender process and elected instead to make a condi-

tional offer for all of the shares". Directors of Pacific Mutual said that they would be accepting the Mercantile Mutual offer in respect of their own holdings, unless a higher offer were forthcoming. However, MMI said only that it would wait to see the formal offer documents before making a decision on its 30.2 per cent holding. The offer is conditional on 90 per cent acceptance.

At the end of March, Mercantile Mutual had about A\$9bn under management, and has a declared interest in

faced as one of the possible bidders for seven cents to A\$3.18.

both Commonwealth Funds Management, the fund management unit owned by the federal government but a likely privatisation candidate, and the New South Wales State Super opera-tion, which the state government has said is for sale.

State Super, which handles civil servants' pension funds, has about A\$170n under management, while CFM controls about A\$8bn

The Mercantile Mutual offer is pitched at A\$2.30 a share in cash, plus a special dividend of 10 cents a share. raising this figure. Partic Mutual shares rose two cents to The ING subsidiary has already sur- A\$2.32 on the news, while MMI eased

Sony set to introduce high-end

By Michiyo Nakamoto in Tokyo and Louise Kehoe

In San Francisco Sony, the Japanese consumer electronics manufacturer, was poised to announce its entry to the US home computer market yesterday evening in New York, with the introduction of

two personal computers.
The home PCs will be powered by Intel's top-performance 200MHz and 166MHz Pentium chips, and Sony said the machines would incorporate high-quality sound and graphics for multimedia appli-cations as well as a modem for Internet access. Prices are expected to range from \$2,000

The machines will be the first product of a technology and manufacturing alliance between Sony and Intel announced in November last

Intel will supply motherboards, the main circuit boards, for the Sony PCs, which will be sold through sumer electronics stores in the US. Sony has yet to decide whether to offer the PCs in Japan and Europe. With dark-coloured cases, in

the style of consumer electronics products, the Sony PCs are designed to compete at the high end of the consumer PC

Although the machines are more expensive than most home PCs, industry analysis said the Sony brand name and design would give the new PCs a broad appeal. In particular, analysts expect them to compete with the top end of Apple Computer's range of bome

Analysis in Japan said the PCs were unlikely to become core profit-earners for Sony, but would enable it to gauge where it should focus its energies in developing a cheaper, mass-market PC.

"This is likely to be the first step in a long process of mov-ing the PC from the office to the home," said Mr Hideki Watanabe, industry analyst at Nikko Research Center in Tokyo. He said Sony's success in making that transfer would

The company has a good record of providing new, attractive features, reflected in the success of its PlayStation, the 32-bit video games machine. Mr Reinier Dobbelmanu, industry analyst at SBC Warburg in Tokyo, said Sony was quite likely to bring fea-tures to the PC that would sufficiently differentiate its products from those offered by computer makers.

NEWS DIGEST

Reshuffle at Dairy Farm International

Dairy Farm International, the food retailing arm of Singapore-listed Jardine Matheson, yesterday unveiled a management reshuffle in which Mr Chris Nelson will step down from the top post in Asia. The new finance director is Mr Edouard Ettedgui, who is now business development director with British American Tobacco Holdings, a subsidiary of BAT Industries of the UK.

Mr Nelson will move to Europe as regional director (Europe), a new position, and assume responsibility for the loss-making Spanish chain, Simago, which was acquired by the company in May 1990. Mr Tim Westinghouse, the group's chief financial officer, will become director of Dairy Farm

High

(Rill t

chief financial officer, will become director of Larry Farm.

Asia, complementing a line-up of four directors with Asian portfolios who were appointed last September.

Asia is the engine of the group, accounting for some 44.7 per cent of trading profits last year, while Europe turned in a loss. The company has been performing poorly in recent years, partly because of management's failure to keep ahreast of the competition. Speaking at last week'e annual meeting. Mr Simon Keswick, chairman, forecast another tough year, citing interess competition in the retail sector. Mr Grama Sashrook intense competition in the retail sector. Mr Graema Seabrook, managing director, said the appointments would strengthen the group's management in the key areas of Asia, Australasia Louise Lucas, Flong Keng

Toshiba sets PC sales targets

Toshiba, the Japanese electronics group, expects personal computer worldwide sales of 2.4m units for the year to March 1997. Of this total, Toshiba said it expected domestic PC unit sales to be as much as 650,000 units. Toshiha said it had set a sales target for its newly launched notebook-type PCs of 30.000

The company also said it would launch sales of desktop-type PCs in overseas markets from the autumn, to enter the overseas desktop PC sector. "We will initially start selling. esktop-type PCs in the US and then Europe," the company added. Toshiba added that it would launch sales of PCs equipped with digital video disc read-only-memory chip drives

in Japan by the end of 1996. Toshiba said that in the January March quarter of 1996, the company raised its share of Japan's notebook PC market to 13.5 per cent, from 9.2 per cent in 1995, its share of the US notebook PC market rose to 25.7 per cent in the quarter from 20.7 per cent. In Europe, Toshiba'e share of the laptop PC sector reached 24.8 per cent, up from 18.1 per cent in 1995.

Toshiba said it aimed to be fifth in the PC market worldwide in 1998. It was placed seventh in 1995. AFX-Asia, Tologo

Australian casino group in loss

The slowdown in Australia's expanding casino industry was confirmed yesterday. The listed Reef Casino Trust, which developed the new casino in Cairns, Queensland; announced it had suffered a loss after interest, but before depreciation and amortisation, of A\$2.2m (US\$1.7m) in February and March, its first two full months of operation. By the end of May, the

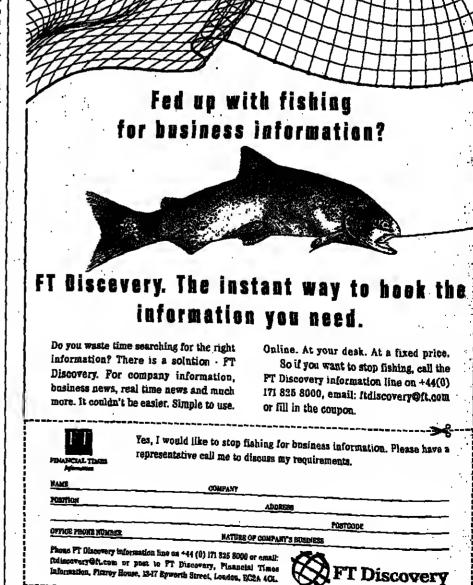
deficit had been reduced to about A\$125,000. The trust said that, as far as general gaming was concerned, visitor numbers had "considerably exceeded" forecasts made in its prospectus, but that the spend per person had been less

A similar pattern had been seen in the food and beverage areas. It added it was confident that, as Cairns moved into its "high tourist season", improvements would follow. However, there will be no distribution to unitholders for the period to the end of June:

Australia has seen a sharp expansion in gaming facilities notably casinos - in the past few years, and analysis have warned that the market may now be oversupplied and ripe for some rationalisation. Reef shares eased two cents to 83 cents. Nikki Tuit, Sydney

CBA retail offer opens

The retail segment of the A\$4bn (US\$3.17bn) sale by Australia's federal government of its remaining shares in Commonwealth Bank opened yesterday. The authorities said more than 250,000 requests for offer documents had been received. The retail offer will last until July 5, with the institutional offer taking place the following week. The price of the shares – which will be due in two instalments – will be set shortly afterwards. CBA shares added 10 cents to A\$10.35, in a generally stronger bank sector.



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Mediaset chief says float will fund growth

By Andrew Hill in Milan

The chairman of Mediaset, Mr Silvio Berlusconi's media company, claimed yesterday the group's forthcoming flotation would help "democratise" the Milan stock exchange, and fund further expansion in new

markets and sectors. Up to 95m Mediaset shares about 8 per cent of the company - will be sold to the Italian public, which is being wooed by advertisements in the press, by posters, and on Mediaset's own television channels. A further am of the 253m shares available will be

reserved for employees, and the rest for institutional investors. The operation will value the group at between L7,000bn and L8,300bn (\$4.5bn-\$5.4bn), making it one of Italy's largest quoted companies.

Fininvest, Mr Berlusconi's family holding company, will reduce its stake in Mediaset from 71 per cent to just under 50 per cent, if minority shareholders' options to buy more shares are exercised. The price will be set on June 29 at between L6,000 and L7,200 a share. Trading should start in Milan and on London's Seaq International on July 15.

About half the shares for the flotation will come from a capital increase. At yesterday's launch of the investment road show, Mr Fedele Confalonieri. chairman of Mediaset, said tha group could use part of the proceeds to expand its television interests in Spain and Latin America. Mediaset has an option to buy Fininvest's 25 per cent stake in Telecinco, the Spanish TV network, and

favourable price. Mr Confaionieri also pointed to the potential of Mediaset's alliance with British Telecommunications and Banca Naz-

related media activities at a

ionale del Lavoro. He con-firmed they would be part of a consortium to bid for Italy's third mobile phone licence later this year.

Mediaset management and advisers have spent the last few weeks insulating the company from the deepening judicial inquiry into Fininvest's affairs.

Yesterday, the chairman also reassured potential investors Mediaset would not lose one of its three commercial television channels. The Italian parliament is supposed to present a new plan on media ownership by late August - if it interprets

PROFILE

a 1994 constitutional court rul. ing strictly, Mediaset and RAL the state broadcaster, might each have to give up one of their three channels. However, Mr Confalonieri

reminded journalists yesterday that Mr Massimo D'Alema, leader of the former commu nist PDS, had told Mediaset employees at a meeting before the April election that they had nothing to fear. PDS and its allies won the election. "I think that now Mediaset, and the group's television networks, are considered by everyone as part of the country's heritage," he said.

Deutsche **Telekom** supervisory head quits

By Michael Lindemann in Bonn

Deutsche Telekom, which is dne to engineer Germany's biggest stock exchange listing later this year with a DM15bn (\$9.8bn) share issue, is losing the long-standing head of its non-executive supervisory

Company executives and industry insiders admitted yesterday they were "surprised" by the decision of Mr Rolf-Dieter Leister to leave. The company announced yesterday he would step down on July 1, citing personal reasons. However, the repercussions

of his departure are expected to be short-lived. Officials in Bonn said a successor had already been appointed and was likely to be appounced

later this week.
Mr Leister. 55, a former head of the German operations of Internetional Business Machines, has been advising the state-owned company since 1983. Deutsche Telekom said a further five-year term as head of the Aufsichtsrat, or supervi-sory board, "did not fit in with his personal and professional plans".

Before Dentsche Telekom became a joint stock - or public limited - company early last year, special legislation covering the German postal and telecoms services meant Mr Leister's position as head of the supervisory board made him more powerful than his counterparts at other companies. He had more influence on stretegic decisions and the appointment of top executives.

However, since 1995 his job has been a more passive supervisory role, with managem control now in the hand of Mr Ron Sommer, chief executive, who came from Sony, the Japanese electronics group.

Mr Leister, meanwhile, holds a number of other advisory positions across the German telecoms industry and is likely to move into consultancy work. "He may have been wondering whether his job at Deutsche Telekom was worth all the bother," one industry executive said.

NEWS DIGEST

KPN lifts holding in GD Net to 54%

KPN, the privatised Dutch posts and telecoms utility, is expanding its interests in the international courier and express delivery market by becoming the largest shareholder in GD Net, which co-owns TNT Express Worldwide with TNT of Australia. Amsterdam based TNT Express Worldwide claims European market leadership in express delivery

KPN said its PTT Post division would hold 54 per cent of GD Net, up from 18 per cent, while the remainder would be owned by Sweden Post, which previously had 15 per cent. This ends a four-year arrangement under which control was shared among five national mail utilities. La Poste of France, Deutsche Post and Canada Post are to sell out at an undisclosed price, but will retain operational links with TNT Express Worldwide. KPN said it and Sweden Post wanted to create a much more decisive ownership structure for GD Net. "The move shows thet PTT Post is one of the most entrepreneurial and dynamic of European postal businesses," said Mr Jonathan Lee of James Capel in London."

Renault to sell valve plants

Renault, the French motor vehicle manufacturer, plans to sell two valve plants to TRW, the US automotive parts and aerospace group which is reported to be interested in a strategic stake in Valeo, the French components company. Under the proposal, Renault would convert the plants, which employ about 500 people, into subsidiaries by the middle of next year, with TRW acquiring a 49 per cent interest. Renault will retain a majority stake in the ventures for an initial transition period, but the company said yesterday they could be completely divested within two years.

Renault explained the move by referring to heavy research and development costs and the need to shorten design time cycles. US and European vehicle makers are handing the development and manufacturing of complete sub-assemblies to specialists. TRW said the two companies were "still David Owen, Paris

Volvo drugs stake plan filed

Pharmacia & Upjohn Inc., the US subsidiary of the London-based drugs group, has filed a registration statement notifying the US Securities and Exchange Commission of Volvo's intention to sell most of its 13.8 per cent stake in Pharmacia & Upjohn, the Swedish automotive group said, Volvo has appointed Goldman Sachs and Merrill Lynch in connection with the registration.

Berry keeps Danzas fight alive

Mr Nicholas Berry, chairman of the Stancroft Trust investment company, said yesterday he would continue to fight for shareholder interests in Danzas, the Swiss freight forwarder, despite his failure to be elected to the board at last Friday's annual shareholders' meeting. Mr Berry, who plans to keep his 2.5 per cent stake in the company, has campairned for policy changes to boost shareholder value. On Friday, despite the opposition of the Danzas board, nearly a fifth of shareholders voted for the candidacies of Mr Berry and Sir Michael Edwardes, former chairman of British Leyland, Frances Williams, Geneva

■ Metsä-Serla, the Finnish forestry group, says it may sell its chemicals division. The division accounts for around 4 per cent of company sales.

Deutsche Babcock warns of heavy operating losses

By Michael Lindemann

Deutsche Babcock, the German engineering group struggling to restructure many of its lossmaking activities, yesterday warned it expected operating losses of up to DM300m (\$197m) for the current year, which ends on September 30.

The company announced restructuring plans, involving the disposal of businesses with combined sales of DML6bn, in February. Howavar, it had declined to specify the cost of the overhaul.

Deutsche Babcock said it was still too early to say whether it would report a net profit or loss for the year. This was because a number of units

were due to be sold and several other measures had been taken to streamline operations.

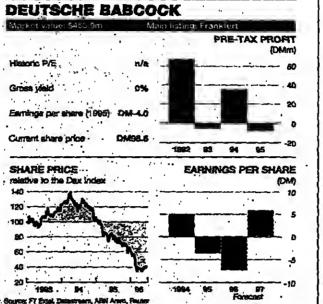
The group reported a net loss of DM46m last year, and sent a letter to shareholders with its recent six-month results which analysts described as "very depressing". The Oberhausen-based group

said it was looking for buyers for Magdeburger Armaturenwerke, a unit making industrial fittings, and for Kugel-hahn, a Berlin-based company specialising in valves for heavy pipes.
The electro-engina business

of Flender, another subsidiary, is also for sale. As part of efforts to cut costs, Mr Heyo Schmiedek-

necht, chief executive, said the size of the group's Vorstand, or management board, would be reduced from six to "three or four", and the number of people working at the holding company which oversees Deutsche Babcock's myriad husinesses, from 120 to 90. The remaining members of the management board would

no longer be involved in the operations of the group's subsidiaries, enabling them to make clearer dacisions, Mr Schmiedeknecht said. "With the new management structure we will be able to resolve conflicts more cleanly," he told the Frankfurter Allgemeine



Czech energy group loses chief financial officer

By Vincent Boland in Prague

Mr Gabriel Eichler, chief financial officer of CEZ, the Czech energy utility. is to step down shortly to pursue other business interests. Mr Eichler said yesterday his resignation had been accepted by the CEZ supervisory board effective from June 30, but he may remain longer to ensure a smooth transition, "My aim is to leave, but it is a question of when," he said.

Mr Eichler, finance chief since April 1994, has been closely identified with a financial restructuring at CEZ that won it post-communist eastern Europe's first announced.

investment grade rating for an industrial company. The revamp and the rating combined to reduce the the cost of its heavy borrowings.

The market shrugged off news of Mr Eichler's move, with CEZ shares rising sharply in a generally strong market. But analysts were disappointed, saying CEZ might have difficulty finding a replacement. It's definitely a pity - he was one of the most capable people at CEZ. It will be quite difficult to find a replacement," said Mr Miroslav Nosal of the investment bank, Patria Finance. No successor was immediately

Mr Richler, who is also CEZ deputy chairman, was tha main link between the company and its bank lenders and investors. CEZ, the biggest Czech borrower, is undertaking a Kc130bn (\$4.6bn) investment programme to cut pollution at coal-burning plants and complete a nuclear power plant with

Westinghouse, the US group. Some analysts said Mr Eichler's declsion may reflect frustration at the slow pace of electricity price liberalisation, a sensitive political issue and one which may be delayed further following the inconclusive outcome of general elec-tions earlier this month.

Mr Eichler, a former chief interna-tional economist at Bank of America, said he had declined an offer to remain at CEZ for another four years because he wanted to pursue other interests. He is a co-founder of Benson Oak, a private investment advisory firm in Prague that recently bired several executives from the investment bank J. P. Morgan.

Standard & Poor's, the credit rating agency, on Friday raised its rating on CEZ and its \$150m eurobond from BBB to BBB-plus, reflecting the success of its investment programme and its negotia-tion of long-term power supply agree-ments with regional distributors.

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Net Profit	US\$ 380 million	+ 23%
Earnings Per Share - EPS	US 81 cents	+ 19%
Net Worth	US\$ 2.45 billion	+ 17%

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Net Profit	60%
Earnings Per Share - EPS	28%
Net Worth	49%

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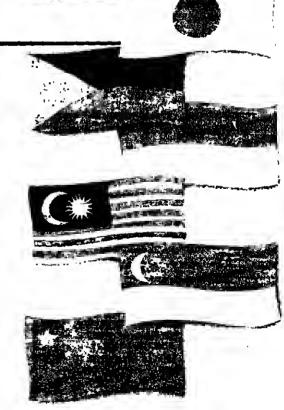
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GOLD MINING COMPANIES' DIVIDENDS

FINAL DIVIDEND NO. 129

The directors of Randfontein have declared a final dividend of 75 cents per share to shareholders registered at the close of business on Friday, 5 July 1996. The register will be closed from 8 July 1996 to 12 July 1996, both dates inclusive. Currency conversion for payments from London will take place on 15 July 1996 and payments will be made on 30 July

end is payable subject to the customary conditions which may be inspected at or obtained from Randfontein's ong office or from the London Secretaries. Holders of share warrants to bearer issued by Randfontein are Johannesburg office or from the London Secretaries. Holders of share warrants to bearer issued by samusoment are informed that payment of the above dividend will be made on or after 30 July 1996 upon surrender of coupon No. 125 to Barclays Bank Pic., Barclays Global Securides Services, 8 Angel Court, Throgmorton Street, London ECZR 7HT. Coupons must be listed on forms obtainable from Barclays Bank Pic and deposited for examination on any weekday (Sanarday excepted) at least seven clear days before payment is required.

> Western Areas Gold Mining Company Limited Registration number 59/03209/06 ("Western Areas" or "the Company")

CAPITALISATION SHARE AWARD - RIGHT OF ELECTION TO RECEIVE INSTEAD A FINAL DIVIDEND (NO. 49) AND TO SUBSCRIBE FOR NEW SHARES - OFFER TO ACQUIRE NEW SHARES

shareholders registered at the close of business on Friday, 5 July 1996 ("the Record Date"). Shareholders may elect instead to receive a final dividend of 60 cents per share. Shareholders making this election will then be given the opportunity to apply the dividend in subscribing for new ordinary shares in the Company ("the Subscription"). In addition, JCI Limited will offer to acquire from shareholders any new ordinary shares received in terms of the

Shareholders receiving the Capitalistion Award or electing the Subscription will be insted new ordinary shares in Western Areas. The number of new shares to be awarded per share held on the Record Date will be determined as the ratio that 63 cents bears to the weighted average traded price of Western Areas shares on The Johannesburg Stock Exchange ("the JSE") on Wednesday, 7 August 1996 ("the Calculated Price"). The total value, based on the Calculated Price. of the new shares that each shareholder will receive will be equivalent to 63 cents per share held on the Record Date.

JCI Limited has undertaken to provide a facility for shareholders receiving the Capitalisation Award or electing the Subscription to dispose of these new shares to JCI Limited at the Calculated Price. The effect of such a disposal will be the receipt of a cash payment of 63 cents per share held on the Record Date, which is 5% higher than the dividend of The purpose of the Capitalisation Award and the Subscription is to enable Western Areas to retain funds in the company that will assist in financing the further exploitation of the South Deep section of the mine. The extent to which shareholders elect these two alternatives will influence the amount and timing of any firture funding

The alternatives to the dividend, together with the undertaking by JCI Limited to acquire the new shares issued by Western Areas, provide shareholders with flexibility to select the alternative that best sais their tax circumstances and

The new ordinary shares to be issued pursuant to the Capitalisation Award will be issued as fully paid ordinary shares of RI each by way of a capitalisation of part of Western Areas' share premium account and will rank heri pass in all respects with the Western Areas ordinary shares presently in issue. The issue of new shares will only be made to ordinary shareholders of Western Areas on the basis of whole shares. All fractions of new shares will be aggregated and sold for the benefit of the relevant shareholders. Subject to the approval of the JSE the new Western Areas shares to be issued

will be listed on the JSE with effect from the commencement of business on Wednesday, 14 August 1996. Documentation, which is subject to the approval of the JSE, containing the full details of the right of election will be posted to shareholders on or about Friday, 12 July 1996. The election period will be extended by θ days from the customary three weeks to enable shareholders to receive, complete and return the election forms in time. The completed election forms must therefore reach the transfer secretaries by no later than 16h00 on Thursday, 8 August. 1996. Should a valid election form not be timeous

The register will be closed from Saturday, 6 July 1996 to Friday, 12 July 1996, both dates inclusive. Currency conversion for payments from London will take place on 12 August 1996. It is expected that share certificates in respect of the new Western Areas ordinary shares and, if applicable, cheques in respect of the final dividend and shares sold, will be posted to shareholders on or about Wednesday, 14 August 1996.

By order of the boards ICI Limited Per: R M Tanmai

18 June 1996

Head and registered office: Comolidated Building Car. Fox and Harrison Streets JCI (London) Limited 6 St James's Piace, London, SWIA INP

TOKYO PACIFIC HOLDINGS N.V. (TPH)

NOTICE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

Tokyo Pacific Holdings N.V (TPH), which has its registered office in Curação, Netherlands Antilles.

Shareholders of TRH. are hereby invited to attend an extraordinary general meeting of shareholders to be held at the office of the company at John B. Gorsiraweg 14, Willemstad, Curação, Netherlands Antilles at 3.00 p.m. on July 9, 1996.

The complete agenda, which includes among other things two resolutions to alter the memorandum and articles of association and a resolution to move the registered office of TPH to Luxembourg, and the literal text of the resolutions have been deposited at the office of the company and at the offices of the paying agents referred to below for inspection by the shareholders.

Copies of the agenda and the complete text of the resolutions to alter the memorandum and articles of association may be obtained by the shareholders free of charge at the above-men-

The holders of bearer shares must deposit their share certificates with one of the following paying agent offices in order to gain admission to the meeting. In exchange for the deposit, they will be issued with a receipt which also serves as proof of admission to the meeting.

The holders of registered shares should inform the Management Board of TPH in writing by July 2, 1996 at the latest if they wish to attend the meeting.

Willemstad, Curação, June 18, 1996.

THE MANAGEMENT BOARD

Paying agent offices:

MeesPierson N.V. Rokin 55 1012 KK Amsterdam The Netherlands

Trinkhaus & Burkhardt Köningsallee 21/23 D-4000 Düsseldorf Germany

Sal Oppenheim Jr. & Cie. Unter Sachsenhausen 4 D-5000 Cologue Germany

25,500,000

HMC MORTGAGE ASSETS

102 PLC

ISTITUTO BANCARIO SAN PAOLO DI TORINO S.P.A. LONDON BRANCH ECU 180.000.000 FLOATING RATE DEPOSITARY RECEIPTS DUE 1987 ISIN CODE : X\$0037981383

For the period from June 18, 1996 to December 18, 1996 the new rate has been fixed at 4,71563 % P.A. Next paymant date: December 18, 1996
Coupon nr: 9
Amount: XEU 24 for the denomination of XEU 1 000
XEU 240 for the denomination of XEU 10 000
XEU 2 397 for tha denomination of XEU 100 000

THE PRINCIPAL PAYING AGENT SOCIETE GENERALE BANK & TRUST LUXEMBOURG

For the Interest Period from June 14, 1998 to September 16, 1998, the Note Rate has been determined at 8,51405% per turnent. The Interest psychie on the relevant interest psyment date, September 16, 1996 will be 21,750,06 per 2100,000 recentival amount.

MARGINED CURRENCY DEALING

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U.S. \$200,000,000 HSBC Americas, Inc. Floating Rate Subordinated Notes Due 2000

5%% pa The same that

CS First Boston The acquisition marks West-

COMPANIES AND FINANCE: THE AMERICAS

Compaq to launch broad range of laptop PCs

Compag Computer sims to eat back to its roots as one of the first manufacturers of portable personal computers, with the introduction of a broad new range of laptop PCs.

Compaq led the market for portable PCs in the 1980s, but has lost its market leadership to Toshiba and other manufacturers of laptop computers in recent years.

The company's new Armada models represent "the launch pad for the re-emergence of Compan's business heritage", said Mr Michael Winkler, senior vice-president and general manager of Compaq's por-table PC division, who joined the company seven months

Over the next 12 months Compeq will add products in every category of the portable PC market, including hand-held "Mobile Companion"

products, Mr Winkler said. The company yesterday unveiled an aggressively-priced standard laytop PC, based on Intel's 100MHz Pentium chip, that will sell in the US for \$1,899. That is about \$400

cheaper than the equivalent Toshiba product, Compaq said. Compaq also introduced a new line of ultra-thin laptop PCs weighing only about 5 lbs (2.25kg) that feature special "bays" to accommodate extra hatteries disk drives and other peripherals and added new high performance models designed for use in business

"We want to regain the number one position in portable computing over the next 18 months or so," Mr Winkler

 International Business Machines will today announce its re-entry into the market for low-end computer printers, five years after it withdrew from the business by spinning off its

printer division. With the March expiry of a five-year agreement not to compete with its former division, now called Lexmark International, IBM is keen to return to the highgrowth segment of the \$8bn market for PC printers.
IBM will announce four

printers with speeds of up to 24 pages a minute. The products will compete directly with printers from Lexmark as well as with those of Hewlett-Packard the market leader. IBM will distribute the new

printers through retail outlets that carry its PCs as well as through its direct sales force. Pricing will be "very competitive", IBM said, although prices have yet to be

Lexmark, in which IBM retains a 6 per cent holding, will continue to distribute printer supplies to IBM

Sony to launch PCs in US;

Loewen expands with US buv

By Bernard Simon in Toronto

Vancouver-basad Loawen Group, the fast-growing funeral home operator, has teamed up with Blackstone Group, the private New York investment bank, to buy Prime Succession, the biggest privately-owned funeral business in the US, for US\$295m.

Blackstone's involvement stems from the strains imposed on Loewen by a \$175m out-ofcourt settlement which the Canadian company reached earlier this year with Missis-sippi's O'Keefe family over a breach of contract dispute.

Blackstona will pay \$48m, mostly for common shares, in the joint venture, while Loew-en's investment will be \$72m,

mainly for preferred shares. The venture plans to raise debt to cover the rest of the purchase price. Loewen has an option to buy out Blackstone after four years.

Mr Paul Wagler, Loewen's senior vice-president for finance, said that Loewen wanted to keep the transaction off its balance sheet at a time when its shares were still recovering from the shock of the Mississippi settlement, which was preceded by a jury award of \$500m in damages. Loewen has raised sizeable amounts in debt and equity in recent months to pay for the settlement and to fund its

aggressive expansion drive. Loewen shares climbed C\$1.20 to C\$40.80 in early trading on the Toronto stock exchange yesterday. However, they remain well below the record C\$56 reached before news of the Mississippi judgment broke.

The jury award threatened to push Loewen into bankruptcy protection. Since the settlement, however, the company, which is North America's second-biggest funeral operator, has renewed its acquisition

It has agreed to purchases valued at \$540m so far this year. But Mr Wagler said Loewen planned to be "very tight" about issuing further

The Prime Succession deal will expand Loewen's business by about 15 per cent.

Western lifts Kansas City offer

By Richard Tomkins in New York

Western Resources, the Kansas-based energy company making a hostile takeover bid for Kansas City Power & Light, area, yesterday increased the value of its all-paper offer from \$1.7bn to \$1.9bn.

The increased bid was intended to thwart a proposed friendly merger between Kan-sas City Power & Light and UtiliCorp, another Kansas-based utility, which had made an offer currently valuing Kan-sas City Power & Light at a little under \$1.7bn.

"cab-over" trucks without bon-

partnership. Western Star last month made a friendly £27.4m (US\$42.1m) cash or shares offer

for all ERF's 10m common

shares, excluding the 4.2 per cent it already owns.

finalised by tha end of this

By joining forces, Western Star and ERF hope to expand

their product range and pene-trate new markets more

quickly than either was likely

to do by itself. "The thing that

attracted us in the first

instance is that they build a

different truck," says Mr Brad-

ley Stam, president of Western

Although each company will

retain a separate identity for the time being, Mr Stam says

that "there will be co-opera-

tion, co-ordination and inte-

gration where benefits can be

The deal is expected to be

new offer was "clearly finan-cially superior" to UtiliCorp's. "This merger makes great business sense, and we must pursue its completion," said Mr John Hays, chairman and chief \$27% in early trading.

Faced with the prospect of increased competition, electricity companies have been trying to drive their costs down by the costs of the c merging with neighbouring

However, the battle for Kansas City Power & Light is had no immediate plans to unusual because there have respond to Western Resources' not previously been any hostile

Western Resources said its bids during the utilities industry shake-out. Under the proposed merger

between UtiliCorp and Kansas City Power & Light, a new company would be formed combining the two. Sharehold-& Light's stock was up \$1% at the new company for each existing share in the old companies.

ern Resources stock.

UtiliCorp said its offer remained on the table and it

NEWS DIGEST

Merger will create Chile's largest bank

Banco de Santiago and Banco O'Higgins, Chile's third and fourth biggest banks, have formally announced an agreement to marge. The new entity would become the biggest Chileson bank, with capital and reserves estimated at \$635m and a loan portfolio of \$70n, making it one of the 15 biggest banks in

The announcement of the merger, which had been expected The announcement of the merger, which had been expects for many months, was published yesterday, along with notification of an extraordinary general meeting of shareholders of Banco Santiago for July 3. The latter is expected to seek a listing on the New York Stock Exchange

and an ADR programme to allow shareholders to exchange ADRs in Banco O'Higgins for its own ADRs. Banco de Santiago's shares fell alightly on the Santiago sanco de Santiago's shares lell alightly on the Santiago stock market yesterday morning as shareholders were reportedly disappointed at the exchange ratio for the merger, which values Banco Santiago's capital and assets at 55 per cent of the new entity, and Banco O'Higgins' at 45 per cent. It is not yet clear how the new bank will receive

It is not yet clear how the new bank will resolve repayment of a \$1.7bn subordinated debt owed by Banco Santiago to Chile's central bank, the legacy of emergency fiscal aid after the bank, along with most of the system, came near to bankruptcy in the early-1980s. In the case of the Banco de Santiago, the debt amounts to an equivalent of 70 per cent of its current share capital. The majority owner of Banco O'Higgins is OHCH, a financial conglomerate controlled jointly by the Luksic group and Banco Central Hispanoamericano of Spain. Imogen Mark, Santiago

Bank of NY sells card portfolio

Bank of New York yesterday said it was selling a credit card portfolio representing about a third of its credit card business to Household International, a US consumer finance company, for \$575m in cash. It said it would use some of the proceeds to buy back up to 10m of its shares, adding to the 105m already bought back under a programme announced last November. The portfolio being sold is the AFL-CIO Union Privilege

affinity card portfolio, commisting 2.2m cards issued to members of the AFL-CIO labour union. The Bank of New York said its contract with the AFL-CIO expires next year, and it had declined to match the terms of a new contract offered by Household International.

The transaction will leave the Bank of New York with 4.4m credit card holders carrying more than \$500 in outstanding credit. The bank said the sale did not affect its plans to expand its remaining portfolio. "We are actively exploring other growth opportunities like the highly successful to branded cards for Toys 'R' Us and Stop & Shop, introduced in 1995," the bank said.

Richard Tomkins, New York

Sidek appoints new chief

Grupo Sidek, Mexico's troubled tourism and real estate conglomerate, has appointed Mr Luis Rebollar, former head of Scott Paper's operations in Mexico, as chief executive of both Sidek and its tourism subsidiary Situr, Sidek is currently trying to satisfy creditors by selling \$1bn of non-strategic assets, primarily those belonging to Situr.

Daniel Dombey, Mexico City

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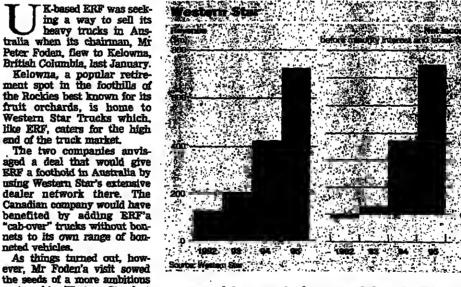
E T

Record for Canada's brokers Canada's brokerage industry, buoyed by active stock markets, posted record commission revenues of C\$949m (US\$694m) in the first quarter, up from C\$508m a year earlier. A strong market for initial public offerings also helped. Overall net earnings were the highest since 1988, at C\$194m against C\$44m. At the operating level, profit rose 46 per cent to C\$514m. Robert Gibbens, Montreal

CANTV plans \$70m revamp The Venezuelan telecommunications company, Compania Anonima Nacional Telefonos de Venezuela (CANTV), announced a \$70m investment plan to improve the service to its 450 large corporate clients, which make up 70 per cent of its annual sales. CANTV's president, Mr Gustavo Roosen, said that investment in the public telephone service has suffered during the past two years as a result of a shortage of foreign currency. An important share package of CANTV is to be sold

ERF takes a through route to Australia

Joining with Western Star gives the UK truckmaker access to an extensive dealer network



ruptcy in 1991 by Mr Terry Peabody, an Australian whose Brisbane-based group had a licence to assemble the Canadian company's tracks in The Peabody family also has

month, subject to the approval of at least 90 per cent of ERF's other shareholders. interests in waste management and the collection and distribution of fly ash, a coal residue Holders of 48.2 per cent of the shares, including the used to make cement. Mr Peabody, 56, spends more time in Brisbana than Foden family, have accepted

Kelowna, but his energy and focus - as well as government financial assistance - are given much of the credit for restoring Western Star's fortunes. Western Star, with earnings

of C\$29.1m (US\$21.3m) in the nine months to April 30 on revenues of C\$556.2m, specialises in trucks tailored to customers' requirements, and off-road vehicles for the mining, forestry and oil industries.

"These guys have given me the best service and they have a good product," said one Alberta trucker earlier this month as he toured the Kelowna plant before taking ern Star's biggest step since it delivery of his new 500-horse-

features include mock-gold rims on the dashboard gauges, side-window demisters and sleeping quarters behind the cab. Switches in the sleeper allow the driver to start the engine and turn on the heat without getting out of bed.

estern Star's output estern Star's output has grown from five trucks a day at its 1991 nadir to 17 a day now. The 24-acre Kelowna assembly plant has a single-shift capacity of about 25 vehicles, but production has been held back in recent months by teething troubles related to the intro duction of a new model series. Mr Stam, a lawyer who handled the Peabody family's

affairs in Seattle before moving to Kelowna a year ago, says production is likely to be back to 23 trucks a day by the end of July. Output will total 4,500-5,000 vehicles in the current fiscal year ending June 30, slightly lower than last year'a 5,034. ERF's 1995 output was

Western Star has a 6 per cent share of Canada's heavy truck market, and 1 per cent in the US. It claims to have been relatively unaffected by the recent slump in North American truck sales, thanks to new models and a low dependence on big fleet orders.

About 13 per cent of its sales are outside North America, mainly in Australia, New Zea-A wider international pres-

ence has been a high priority. According to Mr Stam, "to go to the next level, we need much more infrastructure and a daily presence in these Daalers ware recantly

appointed in Chila, Ecuador and Colombia. ERF's presence in Europe - mainly the UK. Spain and France - as well as its established operation in South Africa were big drawing Since Mr Peabody's arrival,

Western Star has shown a pen-chant for bottom-fishing. "We have looked for opportunities where there may have been some difficulties, so we don't have to pay an enormous amount," Mr Stam says. One such opportunity - which also involved govern-

ment support - was last year's purchase of Ontario Bus Industries, a troubled bus manufacturer with factories in southern Ontario and New

Western Star has installed new management, revamped the engineering department

and overhauled assembly lines.
According to Mr Stam, the
operation is now profitable,
with production up from two to 15 buses a week and new orders for several hundred vehicles from New York City, Toronto, Washington DC and various municipalities in the

western US.

Raymond Colitt, Caracus

ith the revival of the bus company - now called Orion - not yet complete, Western Star is likely to have its hands full over the next few years. ERF has been struggling in the fiercely competitive UK truck market. Although Western Star expects to have a minimal physical presence at its new subsidiary, the new own-ers plan to push for some significant changes. They aim to move ERF more firmly in the direction of the customised, niche market in which West-

ern Star operates. With both companies relying heavily on North American components, they are likely to pool many purchases in order to increasa leverage with

suppliers. Nor has Western Star forgot ten what brought the compa-If the deal goes ahead se planned, ERF trucks should be on the road in Australia - and several other countries

before long. Bernard Simon

Notice of Interest Ret. To the Holders of

The United Mexican States Collateralized Floating Rate Bonds Due 2019

NOTICE 19 HERMAY OF TEN that the interest rates covering the from June 18, 1996 to December 18, 1996 are detailed below.

Series Designation Rate Lukerest Amount Payrount Date
Date Characterists 4-3-43-5 Fol. PA. Date 21.56 Per Date 1.000 Describer 18, 1885

CITIBANK, NA. April

Growing acceptance among international investors worldwide

1995 was a year of evolution and revolution for the German Pfandbrief market, which with a total of DM 1.258 trillion outstanding at the end of 1995 constitutes the largest individual segment of the German fixed income market of over DM 3.6 trillion.

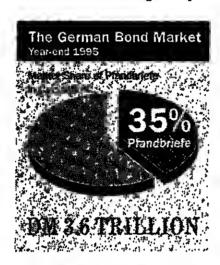
In terms of the evolution of the Pfandhrief market, 1995 was a record hreaking year for the gross sales of the bonds, with a total of DM 325 billion issued, a 28 % increase over 1994's total of DM 253 billion, and a 5 % increase over the previous record of DM 309 billion established in 1993.

While the increase in issuing volumes in 1995 testified to the everexpanding importance of the Pfandbrief market, more significant than the absolute growth was the revolutionary change in the structure of the market. This came in the form of the emergence of the new "Jumbo" Plandbrief, which at a stroke offered local and international investors greatly enhanced liquidity and transparency.

The new "Jumbo" Pfandbriefe differ from their traditional predecessors in a number of important ways. First and foremost, while the typical size of traditional Pfandbrief issues ranges from hetween DM 50 million and DM 500 million (with some issues even as small as DM 10 million), the minimum size for a Jumbo issue has been set at DM 1 billion. Between May 1995, when Frankfurter Hypothekenbank kickstarted the new Jumbo market with a DM 1 hillion issue, and mid-May 1996, a total of DM 86.5 billion of Jumbo issues had been launched with an average size of DM 1.52 billion. The largest individual issue by mid-May 1996 was the DM 5 billion Pfandhrief launched in January by DePfa-Bank in Wiesbaden. By the end of 1996, the total volume of Jumbo Pfandhriefe outstanding is expected to have reached the DM 110-120

A second important feature of the new Jumbo market is that in order to be eligible for the "Jumbo" definition, new issues must have at least three market makers permanently quoting two-way prices, with bid-ask spreads varying from between five and 10 Pfennigs depending on the maturity of the individual issue.

A third important by-product of the development of the Jumbo Pfandhrief market has been that it has helped to emphasize the very clear differences between the German Pfandbrief sector and the mortgage-backed markets of several other economies with which the instrument is frequently (but mistakenly) compared. Because of the size of each issue, the vast majority of transactions in the Jumbo sector of the market have been Public Pfandhriefe (bonds collateralized against loans to the public sector), rather than Mortgage Plandbriefe (which are collateralized against a pool



of residential mortgages). This is because German law dictates that each and every new Pfandbrief issue must be matched by new lending.

By mid-May 1996, almost 95 % of the DM 86.5 hillion Jumbo Pfandhrief market was accounted for hy Public Pfandhriefe, and of the 58 Jumbo honds to have been issued by that date, only four were classified as Mortgage Pfandbriefe. In other words, the new Jumbo Pfandhrief market has had very little to do with the German mortgage market. More than nine times ont of 10, an investor huying Jumbo Pfandhriefe will be gaining exposure to the equivalent of German government risk, while still benefiting from a picknp in yields over federal government bonds (Bunds).

Jumbo Pfandbriefe enrick the scope of the German bond market

A significant hy-product of the development of the new Jumbo sector has heen the considerable enrichment of the scope and diversity of the German fixed income market. Historically, Pfandbrief investors demanded (and were given) a substantial pick-up in yields over German government bonds in order to compensate for the perceived absence of liquidity in the Pfandhrief market - a pick-up which in some periods rose to 50 basis points and

The emergence of the Jumbo Pfandbrief market has meant that for eligible issues of DM 1 hillion and more, this liquidity premium has become an anachronism. As a result, the vield differential between traditional Pfandhrief issues and the new Jumbo deals became especially pronounced during the first quarter of 1996, during which time the spread between Jumbo Pfandhriefe and Bunds narrowed sharply, from 25.6 basis points at the beginning of January to 12 hasis points by the end of March. In spite of the reduction in the pick-up over Bunds which is now available in the Jumbo market, this donble-digit spread over government securities still represents outstandingly good value, given that there is little (if anything) to choose between the two in terms of credit quality.

Given the unrivalled track record of the Pfandbrief in terms of security, however, many yield-hungry investors are already indicating that they would prefer to maintain their tried and tested exposure to traditional Pfandbriefe rather than surrender the extra basis points through huying Jumbo bonds. Either way, it is clear that investors now have a much greater choice in the German fixed income market than ever

IBIS-R, which supports both the

primary and secondary markets for

Plandbriefe as well as other German

fixed interest instruments, replaces

the old trading system under which

the vast majority of trades took place

by telephone between the hanks, and

therefore offers substantially

enhanced market transparency - and

hence liquidity - for all market

participants. With hid and ask quotes

pooled within a single system,

transactions can now be conducted on-

screen at market prices in real time.

1995 - The year of the Pfandbrief

A strong year for **Germany's private** mortgage banks

While the strength and increased popularity of the Pfandbrief in 1995 and the early months of 1996 were helped by the emergence of the Jumbo sector and a benign interest rate environment, the underlying resilience of the market is for the most part a reflection of the rohust state of the German private mortgage banking industry. German law dictates that the volume of new funds raised through the Pfandhrief market hy mortgage banks must at all times match the demand for new lending either to the public sector or to individual or commercial mortgage borrowers.

Though demand for mortgages slipped slightly in 1995, by 6 %, this

small decline was more than compensated for hy a sharp expansion in the demand for public sector loans, which rose by 70 %. This left the overall increase in total commitments in 1995 up by 34.4 %, following a decline in 1994 of 14 %.

As a result, a total of DM 241.6 hillion in new bearer and registered bonds were sold by Germany's private mortgage banks in 1995, which helped the sector to raise its share of the total domestic bond market to 35 % - a sharp increase over the share of just 21 % which was recorded in 1992 following German reunification and the surge in issuing activities of the public sector.

Market

Year end 1995

and common the second control of the second	Germany DM billion	Banks DM billion	Share %
ISSUING			
Domestic bonds outstanding	3,213.4	824.1	25.6
Domestic bank bonds outstanding	1,949.6	824.1	42.3
Plandbriefe outstanding	1,257.5	751.0	59.7
LENDING			
Residential property	1,303.8	288.1	22.1
Commercial real estute Federal, state,	311.2	156.1	50.2
municipal governments	759.6	323.6	42.6

Germany's Mortgage Banks in Perspective

Trading systems enhance transparency

Ownership structure of Pfandbriefe

Jumbo Pfandbrief sector of the market is now far higher than in the traditional

sector. Speaking at a recent conference in Disseldorf, Dr. Walter Dieck,

President of the Association of German Mortgage Banks, estimated that

foreign investors' share of the Jumbo market now stands at between 20 % and

While the emergence and rapid development of the new Jumbo sector of the Pfandbrief market has inevitably generated substantial levels of interest both within Germany and internationally, it is a mistake to interpret the advent of the Jumbo Pfandbrief as the only critical hreakthrough in the expansion of the market as a whole. A number of other important initiatives have either heen made or are now in the pipeline which are also aimed at improving the transparency and liquidity of the market, and, in turn, its acceptability among international investors.

Early examples of this was the introduction in April 1995 of the

ownership of between 40 % and 50 %.

a share of just 15.8 % in the whole of 1995.

25 %, compared with just 10 % in the traditional sector.

Pfandbrief Price Index PEX and the Performance Index PEXP. The PEX Index is calculated daily and can be called up at any time via the Bloomberg system. Since summer 1995, the Bloomberg GDO (German Domestic Offerings) system has been operating for domestic and international investors and traders not authorized to trade

on German stock exchanges. A more recent initiative which will support the expansion of the Pfandbrief market came at the end of 1995, when the Deutsche Börse AG (German Stock Exchange) introduced the IBIS-R bond quotation and trading system, an extension of the tried and tested IBIS equity trading mechanism.

Historically the German Plandbrief has predominantly been a domestic investment vehicle, with local insurance companies, banks and private individuals accounting for the lion's share of ownership. Foreign investors, hy contrast, have traditionally held no more than about 10 % of the market which compares with their much more active participation in the German government bond market, of which non-German investors account for The development of the Jumbo Pfandbrief sector has led to the beginnings of a revolution in the ownership structure of the Pfandbrief market for two clear reasons. First, the enhanced liquidity and transparency in the market

have removed the two traditional stumbling blocks to active participation by foreign investors. Second, since the launch of the Jumbo market last May, a number of non-German investment hanks have become lead or co-lead bookruppers for a series of Jumbo Plandbrief transactions. In the first quarter of 1996, bookrunning of Plandbrief issues by foreign banks accounted for 23.8 % of the total raised in the Jumbo Pfandbrief market, compared with sector issuers. As a direct result of these two developments, foreign ownership in the

> An illuminating measure of the security offered by the Pfandbrief market is that in its entire history, no Pfandhrief issuer has ever defaulted on its obligations. The collateral backing

Pfandbriefe takes the form either of real estate mortgages (in the case of Mortgage Pfandbriefe) or loans to public-sector entities (Public Pfandbriefe). Importantly, and unlike USstyle collateralized bonds, the security is not allocated to any individual issue, but maintained on an independently. maintained register which sharply reduces individual issne-specific risk.

As of the end of December 1995, the German Pfandbrief market was the third largest individual bond market outside the US and, with DM 1.258 billion outstanding, was more than twice the size of the UK Government bond ("Gilt") market. The Pfandhrief market accounts for around 35 % of the entire German bond market and is comfortably larger than the Federal Government bond ("Bund") market, which contributes just under 28 % of all outstanding German fixed income

The German Pfandbrief in a nutshell

The Pfandhrief - for which there is no meaningful English translation - is a German bond issued by a select group of specially authorized banks under a strict legal framework dating back almost 100 years. Germany's Mortgage Bank Act (enacted in 1900) and its Public Sector Pfandbrief Act (of 1927) limits the issuance of Pfandbriefe to 24 pure private mortgage hanks, three mixed private mortgage banks, 12 regional Landesbanks and six institutions officially classified as "public sector banks with special tasks". As of the end of 1995, 59.7 % of Pfandbriefe outstanding was accounted for hy private mortgage hanks, with the remaining 40.3 % the domain of public-

GERMANY'S MORTGAGE BANKS

- OEPFA-BANK, WIESBADEN BAYERISCHE VEREINSBANK AG, MONCHEN
- HYPO-BANK, MÜNCHEN FRANKFURTER HYPOTHEKENBANK
- CENTRALBODEN AG FRANKFURT DEUTSCHE HYPOTHEKENBANK FRANKFURT AG
- FRANKFURT RHEINHYP, FRANKFURT
- *OEUTSCHE GENOSSENSCHAFTS HYPOTHEKEN-*BANK AG, HAMBURG
- BAYERISCHE HANDELSBANK AG, MÜNCHEN WESTHYP, DORTMUND
- HAMBURGHYP, HAMBURG MÜNCHENER HYPOTHEKENBANK EG.
- MÜNCHEN SUDDEUTSCHE BODENCREDITBANK AG.

MÜNCHEN

- WÜRTTEMBERGER HYPO, STUTTGART RERI IN-HANNOVERSCHE HYPOTHEKENBANK AG
- HYPOTHEKENBANK IN ESSEN AG, ESSEN BERLIN HYP, BERLIN
- ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
- NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG DEUTSCHE HYPOTHEKENBANK (ACT.- GES.). HANNOVER
- RHEINBODEN HYPOTHEKENBANK AG, KOLN LÜBECKER HYPOTHEKENBANK AG, LÜBECK
- NORDHYPO BANK, HAMBURG
- CLF HYPOTHEKENBANK BERLIN AG, BERLIN BFG HYPOTHEKENBANK AG, FRANKFURT
- WL-BANK, MÜNSTER M.M. WARBURG & CO HYPOTHEKENBANK AG.
- HAMBURG WUSTENROT HYPOTHEKENBANK
- AKTIENGESELLSCHAFT, LUDWIGSBURG

For further information about German Pfandbriefe please contact: Verband deutscher Hypothekenbanken, Bonn, Fax (228) 9 59 02 44.

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FIDELITY FAR EAST FUND

Société d'Investissement à Capital Variable Kansallis House - Place de l'Étoile L-1021 Luxembourg

R.C. 16926 NOTICE OF ANNUAL GENERAL MEETING NOTICE is hereby given that the Annual General Meeting of the Sharebolders of the Fidelity

Far East Fund, a société d'investissement à capital variable organised under the laws of the

Grand Duchy of Luxembourg the "Company"), will be held at the registered office of the Company, Kansallis House. Place de l'Etoile. Luxembourg, at 11.00 am on June 25, 1996,

Approval of the balance sheet and income statement for the fiscal year ended Februa-

5. Election of six (6) Directors, specifically the re-election of Messrs Edward C Johnson

o. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg.

Declaration of a cash dividend in respect of the fiscal year ended February 29, 1996.

Approval of items 1 through 8 of the agenda will require the affirmative vote of a majority of the shares present or represented at the Meeting with no minimum number of shares

Subject to the limitations imposed by the Articles of Incorporation of the Company with

regard to ownership of shares which constitute in the aggregate more than three percent

(3%) of the outstanding shares, each share is entitled to one vote. A shareholder may act

Fishelity 2.3 Investments

RPS

Residential Property

Securities No. 3 PLC

195,000,000

Class At Notes

a principal repartment of £4,650 per £4,650 have pursuant to Clauses (56) of the Notes on the interest partment day. (7th June 1996, The personnal

amount outstanding on this june will therefore to all per Sone.

NATWEST MARKETS

lortgage Backed Floating Rate Notes due 2025

Consideration of such other business as may properly come before the Meeting.

3rd. Barry R J Bateman. Charles T M Collis. Charles A Fraser. Jean Hamilius and H F

specifically, but without limitation, for the following purposes:

Presentation of the Report of the Board of Directors.

4. Discharge of the Board of Directors and the Auditor.

van den Hoven, being all of the present Directors.

present or represented in order for a quorum to be present.

BY ORDER OF THE BOARD OF DIRECTORS

at any meeting by proxy.

April 16, 1996

RPS

Residential Property

Securities No. 3 PLC

000,000,000

Class A2 Notes

Mortgage Backed Hoaring Rate Notes due 2025

a fameday solvening in Cyron Lyc. A fameday solvening in 1990, but

NATWEST MARKETS

Presentation of the Report of the Auditor.

COMPANIES AND FINANCE: UK

Forte's finance chief to join WH Smith

Mr Keith Hamill, who was widely admired for his part in Forte's defence against Gran-ada's £3.9bn (\$5.96bn) hostile hid, is to become finance direc-

tor of WH Smith. Mr Hamill, 43, graphically described the state of the Forte camp when news of the bid broke as like "heing on the Tltanic when the iceherg struck". But he rapidly became a key aide to Sir Rocco Forte in the struggle to survive, leading the finance team through a month of 14-hour days for six or seven days a week.

As the final hope of survival faded. Mr Hamill continued the nautical metaphor, telling staff: "Our company is going down. However, I am proud to report that it has gone down with every gun blazing."

He is joining WH Smith at a critical point in its fortunes. Last week the group announced the outcome of its long-awaited strategic review, its position in the high street through a sweeping overhaul of its retail stores.

Mr Hamill - a stocky, bespectacled man with a keen sense of humour and down-to-earth manner – joins the WH Smith hoard next month and takes up the finance director's duties from September I when Mr John Napier, 59, retires.

Analysts welcomed the appointment. "A shot of sterner financial disciplines would not be a bad thing," said one. Another described him as very upbeat and proactive he brought a hurst of fresh energy to Forte during his cou-ple of years there."

Hamil's great skill was solving problems, adding: "This was the job he wanted rather than the job he needed.' Mr Jeremy Hardie chairman

A former colleague said Mr

of WH Smith, said Mr Hamill's "experience and success in restructuring businesses and

the development of financial and IT process, coupled with his strategic and investor relations skills" would be of great

benefit to the group. Mr Hardie added that Mr Napier was "retiring on a high note" after the recent disposals of WH Smith Business Supplies and Do It All." Mr Hamili joined accountants Price Waterhouse on

leaving Nottingham Univer-sity, where he read politics, rose to partner, and worked as an auditor on the Guinness account at the time of its 1986 bid for Distillers. He was called as a witness in

the subsequent trial of Mr Ernest Saunders, the former Gninness chairman, over the conduct of the bid.

He was recruited to Guin-ness itself in 1988 by Sir Anthony Tennant, then chairman of the drinks company, and rose to be finance director of United Distillers, its spirits subsidiary, hefore joining Forte as in September 1993.

LEX COMMENT British Steel

Sir Brian Mollat, British **British Steel** Steel chairman, rather gave the game away yesterday Share price relative to the FT-SE-A All-Share Index when he compared last year's £1.1hn profits to those of the previous peak in 1989.90. The only question now is how rapidly profits will decline this time round. The industry background is

mixed at best. British Steel expects prices to firm after

nearly a year of weakness.

pointing to an end to UK

destocking and huoyant underlying demand in Europe and Asia. But the

steel iudustry's prohlem. particularly in Europe, has always been oversupply rather than lack of demand. German and French steel producers are still on short-time working in an effort to clear excess stocks. The experience in the US which tends to be six months ahead of Europe - suggests any bounce in steel prices will be modest if it comes. Moreover, British Steel is facing higher raw material costs and a strengthening British pound.

Nor is British Steel that different a company from when it entered the last downturn. Despite all the cost cutting, last year's profits were not very different from the £733m in 1989. 90, once one adjusts for inflation and acquisitions. The group is still highly cyclical and makes four-fifths of its sales in Europe. It has some promising US investments, but has found it difficult to break into Asia. British Steel does have £690m of net cash. But with its management facing a 40 per cent decline in earnings per share this year and only expecting cash flow to he neutral, a share huy back or another dividend increase look highly unlikely. That leaves the shares with few attractions,

Acquisitions and strong demand lift British Steel

By Stefan Wagstyl, Industrial Editor

Capital One Master Trust

U.S. \$300,000,000

For the interest period 17th June, 1996 to 15th July, 1996 the Certificates will carry an interest rate of 5,60609% per annum with an amount of U.S. \$43,60 payable per U.S. \$10,000 denomination and

U.S. \$436.03 per U.S. \$100.000 denomination, payable on 15th July, 1996.

Union Bank of Switzerland London Branch Agent Bank

13th June. 1996

ing Rate Class A Certificates Series 1995-2

British Steel yesterday posted record full-year profits of £1.1hn (\$1.68hn), huoyed by acquisitions and strong demand in the first half of the

Turnover rose 47 per cent to £7.05bn, thanks mainly to the purchase of a controlling stake in Avesta Sheffield, the stainless steel maker, which was consolidated in the second half of the year, and the first full-year contribution from United Engineering Steels, the Sheffield-based company. Excluding acquisitions, turnover

The acquisitions also

affected operating costs, which rose 41 per cent to £6.1hn, However, the underlying increase was just 4 per cent.

Setting aside the acquisitions, the payroll fell by 850, reflecting the company's continuing determination to cut costs. Overall staff numbers increased from 46,300 to 53,900.

The company made capital investments of £364m, including in Trico, its steehnaking joint venture in the US, and in modernisation at Avesta. It also boosted its net cash position hy £561m to £690m and plans to invest a further £400m in the current year, as spending on Trico peaks.

The increased final dividend

of 7p, makes a total payout of 10p, up 33 per cent from 7.5p. Earnings per share were 38.29p (23.21p). UK deliveries totalled 7.3m

tonnes as the company increased its market share to 58 per cent at the expense of importers which were suffering from the effects of sterling's weakness.

In continental Europe, deliveries rose to 4.4m tonnes from 3.5m tonnes, due to the acquisitions. Outside Europe, deliveries were 2.7m tonnes (2.3m tonnes), again thanks to acquisitions. Average revenues per tonne, rose 33 per cent to £419. Without the acquisitions, revenues per tonne rose 10 per cent to £348.

Zeneca in US deal

the UK.

ences of the US and Celltech in

Rivals, such as Smithkline

Beecham of the UK, typically

conclude dozens of hiotechnol-

ogy company each year.

Zeneca's top management has been seeking to do more in the

Mr David U'Pritchard,

research director for Zeneca

pharmaceuticals, said the

incyte deal would help Zeneca

huild up its in house research

in genomics - the use of

new research targets"

By Daniel Green

Zeneca, the UK's third largest pharmaceuticals company, has made a rare foray into the world of hiotechnology by signing an agreement with US company Incyte Pharmaceuticals. The deal, a set of subscrip-tions to huge databases in

genetics, will cost Zeneca between £5m and £7m (\$10.7m) a year indefinitely. Unlike most other large pharmaceuticals companies,

Zeneca rarely joins forces with hiotechnology companies. It has signed only three deals

Sugen and Boston Life Sci-

genetic information. Mr U'Pritchard said that the information would help the in the past two years - with company "identify and validate

ODEBRECHT

HIGHLIGHTS-1995

ECONOMIC WEALTH PRODUCED

In millions of US\$ Payment of Third Parties .. 5 2,538 Suppliers and Independent Contractors

Compensation for Work \$ 671

Odebrecht Members Government Revenue \$ 414

Taxes Tariffs and Contributions Return on Equity \$ 197

Shareholders

Performance results from the high-quality, productive work of the Odebrecht Group's Members, who thereby fulfill their Social

INVESTMENTS

Commitment to the future Creating job and development opportunities for people and

Investment commitments

during the year: In millions of LISS Amount Realized 1985tl

ON AND PARTHERS



ervice 24,728 Manufacturing 7.594

Other Countries 9,542

OF PARTNERS RESPONSIBLE FOR BUSINESS UNITS Other Countries 1985 1990

GROWTH IN THE NO.

1995 140 86 226

Responsibility.

Odebrecht is a Confederation of Entrepreneur-Partners who work in a variety of businesses and locations with globally competitive vision, alliances and standards.



Engineering Companies: operation

Angola, Argentina, Bolivia, Botswana, Brazil, Chile, China, Colombia, Ecuador, Germany, Laos, Malaysia, Mexico, Mozambique, Peru, Portugal, Singapore, South Africa, the Univer Kingdom, the United States, Uruguay and

exportation of products to 55 countries.

QUALITY -PRODUCTIVITY -INNOVATION

The practice of the Odebrecht Entrepreneurial Technology ensures Total Quality, a basic prerequisite for competitive Highlights include:

- CBPO delivering Mexico's Hurtes Dam 18 months ahead
- TENENGE/SLP creating a
- local habitat for outdoo
- welding in the UK

- CPC developing a sewage
- collector system using rigid PVC piping.
- OPP adopting ISO 14000

GRADUAL PREPARATION FOR POST-CAREER LIFE

- Private Pension Plans In operation in Brazil and Europe (Germany and the UK) and the USA (Florida and
- ODEPREV Odebrecht Previdência was created in
- May 1995 to provide private pension plans and insurance coverage for Members in
- Brazil and those transferred to Colombia, Ecuador, Peru. Venezuela and Angola. Total number of associates at

December 1995: 15,980.

PARTNERSNIP WITH **EDUCATIONAL AND** RESEARCH CENTERS

Odebrecht continued its partnerships with Educational and Research Centers (14 in Brazil and 12 in other countries). Highlights include:

w in Brazil: CNPq, USP, UNICAMP, UFRI. PUC. UFRGS and University

of Alagoas. In other countries: Instituto Regional Cultural (Peru):

Aspen Institute of Technology and University of Wisconsin (USA):

Universidade de Coimbra (Portugal): and Cambridge University

COMPETITIVENESS PROFIT AND NET WORTH

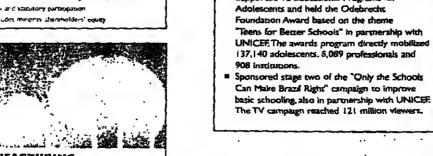
DEVENUE	S - USS 3,821 million
	ng
Brazil	2,376
USA and Eu	rope 72.1
Other Coun	tries 723

SERVICE Backlog: USS 3,472 million

In millions of USS Brazil 2.064 New contracts: USS 2,371 million In millions of USS

In millions of US\$ Net Profit* 203 courts at a state large participation "includes ministras Laterholders" equal

MANUFACTURING Chemicals and Petrochemicals 2.150 million tonnes in thousands of tonnes Polypropylene, polyethylene and polyolefinic speciatues 765 PVC424 Soda467



Pulpwood Forestry 16,000 hectores planted, with average annual growth of 46 solid cubic meters per hectare

of evenlyptus forest.

ODEBRECHT FOUNDATION Sponsored stage two of the "Only the Schools



ADDITIONAL RESPONSIBILITY TO

EDUCATION AND CULTURAL CONTRIBUTION

 Supported 18 Educational Programs for escents and held the Odebrecht Foundation Award based on the theme Teens for Better Schools" in partnership with UNICEF. The awards program directly mo 908 institutions.



The Voyager's Brazit. Ewe The Use of Man Revision and republication of the works of Jorge Amado. Release of the CD Tom John - Inedito (Johlm - Unheard).

(UK).

DIVERSIFICATION

CORPORATE STRUCTURE Odebrecht S.A. (holding company) plus 107 subsidiaries and affiliates.

CNO - Construtora Norberto Odebrecht S.A. (24 colfipanies) Companhia Brasileira

de Projetos e Obras -

CBPO (23 companies)

Engingering

Tenenge - Técnica Nacional de Engenharia S.A. (22 compadies)

Stelar Telecom Ltda.

CMW Equipamentos S.A.*

Telecommunications

MANUFACTURING Chemicals and Petrochemicals Odebrecht Quimica S.A.

(19 companies)

OPP Petroquimica S.A. CPC Companhilo Petroquimica Camaçari. Salgema Industrias Quimicas S.A.

Copene - Petroquimica do Nordeste* Copesul - Companhia

Petroquímica do Sul Ltda Uninar - Unia das Industrias Petroguimicas S.A. . Supvocd Forcers Veracruz Florestal Ltda.

SUPPORT COMPANY OCS - Odebrecht Administradora e

Corretora de Seguros



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27.55

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COMPANIES AND FINANCE: UK

A hot future in fire protection

Ross Tieman analyses Williams stance as a focused conglomerate

sbell fragment bursts through the side of an aircraft or tank and in the time it takes to blink an explosion is triggered and extinguished. The machine and crew are saved.

TANK OF MALE

This is a demonstration of the high-tech edge of fire protection, the £6bn a year business in which Williams Hold-

ings is a world leader.

Making equipment to stop, detect and extinguish fires is opening doors to growth and a much-needed re-rating for Wil-

Until last month, Rawlplugs, Polyfilla, paint and other building products accounted for more than half the group's £1.6hn annual sales. Williams is breaking away from depen-dency on the construction and building cycles by building a global business by welding together companies plucked from the fragmented fire equipment market. Its fire protec-tion division now counts sales

of £700m a year.
With last month's £175m purchase of Sicli and Siddes in France, its products range from fire detection systems. through industrial fire-fighting equipment, to fire engines and domestic extinguishers.

These markets are growing at 5-15 per cent a year, partly as a result of increasingly tough regulations. Williams has achieved savings by spreading research and development across a broader base, and using the distribution systems it acquires to intro-

By Clive Cookson,

Mr Nowell Stebbing, one of the

UK's best-known pharmaceuti-

cal entrepreneurs, is taking legal action against Chirosci-

ence, the company he steered to a stock market flotation in

His writ against Chirosci-

ence alleges that be was

wrongfully dismissed as the

company's deputy chairman in

August. He is also claiming

damages for the wrongful

removal of share options worth

Mr Stebbing is now guiding

cal company, to a flotation

the writ - issued in February -

when it raised £40m in a share

claim bas no marit and the

board has been advised that he

is unlikely to succeed," Chiros.

cience told the Financial

"Accordingly, the board

believes this dispute will not have any significant impact on

the group's financial position and therefore does not consider

it to be material."

"The group balieves his

placement last month,

Cambrio, a new pharmaceuti-

3.5m-£5.5m (\$8.4m).

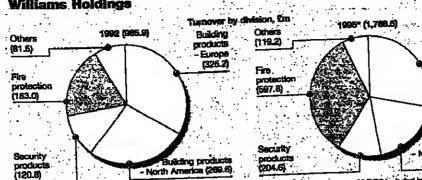
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ience Editor

Williams Holdings



duce existing products into new markets.

It claims 12 per cent of the world fire equipment market. Tyco International of the US is a rival in industrial and portahle extinguishers, Nohmi Bosai and Hochicki of Japan are strong in industrial detectors and panels; Chubb (UK) and Cerberus of Switzerland are also significant competitors. But no other company offers the range of equipment that Williams does.

However, analysts question Williams' claim to be Britain's first focused conglomerate. You can't really become focused just by bundling everything into four divisions," says

one. Mr Roger Carr, Williams' chief executive, accepts that his company, like rivals Tomkins, Hanson and BTR, grew by opportunism. "We all started in the same place: buy

John Padfield who joined tha

company from Glaxo in April

Mr Stebbing claims he was asked to resign last year

although he was in good bealth

by then and performing well.

At the same time, be claims,

Chiroscience wrongfully

the assumptions made

the group said.

what you can, sort it out, and move on," he says. Now, "our aspirations are to build busi-

nesses internationally.

At the consumer end, where disposable extinguishers sell in DIY sheds, there is a link between fire-fighting equip-ment, locks and hullding products. But even within the fire division, equipment is sold to buyers as varied as local authorities, sircraft makers and building engineers. Door-chimes, made by Williams' US subsidiary NuTone, are not on

their shopping list.
The benefits of running fire. security and building products in parallel are strictly limited. But Mr Carr rejects suggestions that the company should demerge. "The whole issue of demerger is when you decide we at head office bring nothing to the party." he says. "We are still adding value. The opportunity to take a Sicli, to buy it

things that come from Wil-

For its claim of a focused atrategy to ba credible, Williams will have to take tough decisions on the future of peripheral businesses. Analysts say the bome improve ments companies look increas-ingly out of place. In that case NnTone; Smallbone, the fitted kitchen specialist; Amdega conservatories; Dreamland electric blankets; Larchlap fencing; and several more may

all be on the block. At the end of 1993, Williams sold its Cortworth engineering subsidiary to management for £40.3m, retaining 19 per cent to capitalise on future growth. Cortworth floated last year with a £71.6m price tag, valu-ing Williams' interest at £13.6m. Now Williams is set to divest its electronics bus

Thomas Cook set Former director at for Sunworld buy Chiroscience to sue

By David Blackwell

The background to the dispute is that Mr Stebbing devel-oped cancer in 1993, about six Thomas Cook, the high street travel agent that has a stake in boliday operator First months before the Chiroscience flotation. He saw the flo-Choice, is expected later this tation through as acting chief week to announce the £40m executive but, because of his illness, ba agreed to hand over the chief executive's job to Mr (\$61.2m) acquisition of Sun-

Sunworld, privately owned by a Spanish group, has about per cent of the UK package holiday market, making it the fifth largest after Thomson, Airtours, First Choice and Cosmos-Avro. It already supplies bolidays for Thomas Cook, and is featured in the group's bro-

removed about one third of his The acquisition is seen as share options. His writ puts key to giving Thomas Cook the vertical integration that forward alternative valuations of the loss, from about £3.5m to Thomson and Airtours already more than £5.5m, depending on through their respective ownership of travel agencies Chiroscience said the terms Lunn Poly and Going Places. of Dr Stebbing's contract were satisfied in full on his depar-

Tha deal bas been rumoured for several months, but is ture. "He received £101,000 understood to have been comcompensation for his loss of office, in addition to which in plicated by the link with First Choice. A planned strategic September 1995 he exercised alliance between Thomas Cook share options which be was and First Choice collapsed 18 permitted to retain with a value at that time of £7.43m," months ago, although the agent still sells more than 15 per cent of First Choice bolidays. The case is likely to be heard

in the High Court next year, if it is not settled by negotiation.

Thomas Cook, which is

wbolly owned by West-deutsche Landesbank, the Dusseldorf-based state-owned bank, is understood not to be announcing the sale of its 11 per cent stake in First Choice this week. But analysts believe a final exit is only a matter of time, and would make even more sense once Sunworld has

In 1993 Thomas Cook held a 21 per cent stake in First Choice after helping it to defeat a hostile bid from Airtours. But the alliance always promised far more than it ever

Since its collapse, at the end of 1994, Thomas Cook has reduced its stake, mainly by not participating in a £44.1m rights issue last October, when First Choice announced profits of just £1.3m after summer season.

Airtours Tomorrow announces its interim results. and observers will be watching for signs of how sales for this summer season are going. They could give a guide to expectations for First Choice, which reports in another month. First Choice shares lost 21/2p to 801/2p yesterday, well below the 150p paid by Thomas Cook in April 1993.

RESULTS		Pro-taux		Current payment (r)	Date of payment	- Dividencia Corresponding dividend	Total for year	Total lest year
Adare Printing \$\frac{1}{4}\$ Yr to Apr 30 British Stoel Yr to Mar 30 British Stoel Yr to Mar 31 East Sentry Yr to Mar 31 Fischax \$\frac{1}{4}\$ Yr to Mar 31 Lon Scot Bank 6 mins to Apr 30 Oceana Cons Yr to Mar 31 Oceana Cons Yr to Mar 31 Frace Yr to Mar 31 Storting Inds Yr to Mar 31 Storting Inds Yr to Mar 31	70.1. (43.9) 7.048 (4.764) 47 (44.5) 42.7 (31.2) 14 (5.63) - (-) 15.8 (13.8) 7.76 (3.34) 14.67 (11.56) 68.6 (58.2) 410.3 (343.5)	7.78 (3.29) 1,102 (578) 1,556 (4.92) 4.16 (2.43) 4.3 (3.55) 2.54 (1.69) 0.494\$ (0.142) 1.06 (0.116) 8.11 (20.9\$) 19.9\$ (20.9\$)	53.38† (30.8) 38.28 (23.21) 49.2† (48.6) 16† (13.5) 21.3 (20.2) 2.6 (2.1) 20.62 (14.37) 3† (2.34) 10.12 (0.4) 18.68† (17.33) 23.2 (29.17)	2,986 7 12,4 2 9 0,85 2,75 0,57 1 5,7 12,75	Aug 6 Aug 12 Aug 2 Nov 1 Aug 1 July 26 July 23 July 19 July 19 July 12 Oct 2	1.3025 5.5 10.7 1.575 7 0.725 2.25 ntl 5 12.1	5.065 10 18.6 3.35 13 - 3.5 1 2 8.5 19.75	2.342 7.5 15.7 2.625 10 2.57 2.875 1 7.5 16.75
Wagon kulustrioi Tr to was 51		Ath/Entable	ers (v)	Content (b)	Date of payerant	deldand	Year	Zear.
Atruesta	RAY (p)	Earnings (2m)	3.69 (3.89)	4	Aug 7	4		5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. Watter exceptional credit. †On increased capital.

§USM stock. ★ Comparatives restored. "Equivalent efter allowing for scrip issue, ♦ Comparatives for year to January 1. "At Oct 31 1995.

GTM-ENTREPOSE is one of the leading groups in the European construction inquistry of it h designs, builds, and operates for industry and public and private clients.

With turnover of almost 43 billion French Francs generated in 1995, of which 36% is derived from operations abroad, the Group employs 68,000 men and women in over 70 countries.

Combining an expertise in major projects and over 100 years of experience in its specialities, GTM-ENTREPOSE offers its capacity for imagination and initiative to satisfy the diverse needs of its clients.

FURTHER INFORMATION: TEL. (33-1) 46 95 71 86 Fax (33-1) 46 95 73 79

FINANCIAL DEPARTMENT 61, AV. JULES QUENTIN 92003 NANTERHE FRANCE



The Annual General Meeting of GTM-ENTREPOSE, held on June 11, approved the financial statements for 1995. Consolidated net income, Group share, stood at FRF 198 million, comparable to 1994's figure.

It was agreed to distribute a dividend of FRF 8 per share (FRF 12 including tax credit). with an option to receive the dividend in shares. This option may be exercised from July 8, 1996, ex-dividend date, to July 30, 1996.

Cash dividends will be paid as of August 9.

The Annual General Meeting also renewed the terms of Messrs. Jean-Louis BRAULT, Jérôme MONOD, Pierre DELAPORTE, Roland GIRARDOT, Claude PIERRE-BROSSOLETTE as Members of the Board of Directors and appointed Mr. Francis GUTMANN and MOBIL-OIL FRANÇAISE, represented by its Chairman Christian SCHNEEBELL, as new Members.

At the close of the Annual General Meeting, the Board renewed the appointments of Messrs. Jean-Louis BRAULT and Jerôme TOLOT as chief executive officer and chief operating officer,

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The SODEX'HO S.A. Board of Directors met on

June 14 and examined the following points. L SALE OF SODEXHO'S INTEREST IN EUREST

FRANCE SODEXHO has agreed to sell its interest in Eurest France to COMPASS for 590 million French francs, in line with the decision taken by the Board after consultation with the Group Executive Committee and the Executive Committee, France.

The agreement effectively terminates the legal action underway concerning COMPASS' acquisition of an interest in EUREST FRANCE. The decision was made for two reasons:

- SODEXHO was not fully supported by Eurest France management, unlike in the case of recent alliances with GARDNER MERCHANT and PARTENA. - The offered price appears reasonable and yields a large capital gain, which witt strengthen the Group's

financial posidon. SODEXHO France will pursue its development. thanks 10 the ability of its teams to provide clients the best service at the best price.

2. NEW CONTRACTS During the first half of fiscal 1996, SODEXHO was awarded a number of important new contracts in its

core husinesses. France: Headquarters staff restaurants for Nestlé in Noisiel (outside Paris) and for the Caisse Régionale d'Assurance Maladie in Marseille. School systems in Paris and nearby Noisy-le-Grand. The Franco-British

Hospital in Levallois-Perret, near Paris. United Kingdom: staff restaurants for BAT Industries in London and for a Defence Ministry department in western England. United States: The staff restaurant at American

Express in Minocapolis and bousekeeping services for the Boston Children's Hospital. Kazakstan: Renewal of the Chevron contract with

our Allied Support remote site management subsidiary. Canada: Management of the Falconbridge nickel mine in Raglan, Quebec.

Hungary: Sodexho Pass has signed a contract with national oil company MOL to serve 12,000 luncheon voucher users per day.

3: SALE OF PARTENA SECURITY SODEXHO S.A. recently acquired a 45.6% interest in PARTENA AB, Sweden's leading contract services

firm. The other shareholders are FINANCIÈRE SODEXHO and company management. In addition to food services, cleaning and retirement home services, PARTENA also had a security business, which did not offer as close a fit with our own core competencies. As a result, it has been sold on good terms to FALCK, a Danish security services company.

The sale will allow Partena and its management to focus on growing the activities of PARTENA Cater. PARTENA Clean and PARTENA Care, which enjoy a great deal of synergy hetween themselves and with other SODEXHO units, as well as good prospects for development.

Cardapio, Brazil's third largest issuer of service vouchers.

4. CHEQUE CARDAPIO

will have a positive impact of consolidated earnings for the year ending next August 31. Issue volume is experiencing good growth, in tine with forecasts. 5. ISSUE OF BONDS WITH WARRANTS The May issue of two-billion French francs worth of SODEXHO bonds with warrants attached was well

subscribed, with 75% of shareholders exercising their

The February 1996 purchase of a 30% interest in

priority rights. The issue enabled us to consolidate the Group's debt. repay part of the debt taken on to acquire Gardner Merchant, and refinance remaining deht at lower rates. Eventually, the securities will also

strengthen the Group's equity funds.

6. INTERIM FINANCIAL RESULTS " Consolidated financial results for the six months ended February 29, 1996 increased considerably from the year before, due to the consolidation of Gardner Merchant over the period. Net sales amounted 10 12.398,000.000 French francs, operating income was 561,434,000 French francs and net income after minority interests came to 213,310,000 French francs.

Operating margin continued to widen, reaching 4.5%. Net sales are expected to end the year slightly above 24 billion French francs, representing organic growth of 8%. The remaining growth will come from the consolidation of Gardner Merchant over the full year. Excluding exceptional and non-recurring items. which are expected to amount to 320,000,000 French francs, consolidated net income after minority interests will exceed 370,000,000 French francs, for an increase of more than 30% over than 284,000,000 French francs reported at August 31, 1995.



Restrictions on dealers outlawed



Netional restrictions on foreign securities dealers are contrary to Treaty of Rome rules on the freedom of

COURT sstablishment and the provision of services, the European Court of Justice has ruled. The ruling followed proceedings brought by the European Commission against Italy for breach of its treaty

The Commission claimed that certain Italian provisions which had an impact on foreign dealers were contrary to the Rome treaty's provisions on the establishment and the provision of services.

Under the Italian rules, dealers in transferable securities (apart from those in banks) could only carry out their sctivities in Italy if they had been authorised to do so by the National Commission for Companies and the Stock Exchange. One condition for such authorisation was that the dealer had to be constituted in the form of a limited company which had its registered office in Italy.

Insofar as freedom of establishment was concerned, the Commission submitted that the restriction prevented dealers from other member states from making use of certain forms of establishment, such as branches or agencies. It also discriminated against them by obliging them to bear the additional costs of setting up a new company. The Commission argued that the restriction was disproportionate as it was not necessary for attaining the legitimate aim pursued by the

Italian legislation. The European Court ruled that under the relevant treaty provisions, freedom of establishment was to be exercised under the conditions laid down by the law of the country of establishment for its own nationals. Thus, where access to a specific activity was subject to certain conditions in the host member state, nationals of other member states who wished to carry out the activity in question had, in principle, to comply with those con-

However, the treaty provi-

sion ontlawed discrimination against nationals of other member states, in particular by domestic rules which were liable to place those nationals in a situation which was less favourable than that of nation-

als of the host member state. The Italian government did not deny that the restriction impinged on the freedom of establishment, but claimed that it could be objectively justified. In particular, it was claimed that foreign securities dealers could not be supervised and effectively sanctioned unless they had their principal place of establishment in Italy.

The European Court did not accept that claim. While the restriction facilitated the supervision and control of the dealers, it was not the only means of ensuring compliance with the domestic rules. It was, for example, possible to require dealers to agree to be subject to checks or to supply documentation demonstrating com-

pliance. Even if the aims of the Ital ian legislation were to be regarded as covered by the Treaty of Rome public policy exception, that exception could not be relied on as the restric-

tion was disproportionate. Insofar as the provision of services was concerned, the Commission argued that the restriction entirely precluded the provision of services in Italy by dealers from other member states. It considered that the restriction was neither indispensable nor necessary for achieving the legitimate aims of investor protection and market stability pursued by the Italian legislation.

The European Court found that the obligation on dealers from other member states to set up their principal place of establishment in Italy was the very negation of the freedom to provide services. It did not constitute a condition which was indispensable for attaining the aim pursued, for the same reasons as the court had found in respect of the arguments advanced by Italy on freedom of establishment

C-101/94: Commission v Italy, ECJ FC, June 6 1996.

BRICK COURT CHAMBERS.

INTERNATIONAL PEOPLE

Exit door opens a crack at Heinz



Speculation about the succession at H.J. Heinz, the US food company, has burst into life again with William Johnson, one of five senior vice presidents, cast in the role of the man

most likely to succeed Anthony O'Reilly (above) in the top job. Until now, Heinz has looked some thing of a one man band; the Irishborn O'Reilly has held all three top jobs of chairman, president and chief executive. But now O'Reilly, who reached 60 this year, is handing over his president's title to Johnson and creating a new role for him as chief operating officer.

Johnson, a 47-year-old Texan, is credited with two main accomplishments at Heinz: spurring profits growth at the company's Star-Kist tuna unit and successfully integrating the ecquisition of Quaker Oats' pet

Heinz says it would be wrong to read too much into his promotion. O'Reilly will not be stepping down for at least three years, it says, and no succession plan will be devised "until such time as he wishes to proceed down that road."

Four years ago another of Heinz's senior vice presidents, David Sculley. was tipped as a potential successor to O'Reilly, but nothing ever happened: two weeks ago Heinz announced that he was leaving to form a buy-out company with his brothers.

With Johnson's promotion, the three remaining senior vice presidents - William Springer, 56, Luigi Ribolla, 59, and David Williams, 53 are being promoted to executive vice presidents. Richard Tomkins



nationals to head its foreign businesses has arrived in India. George Ewart, chairman and managing direc-tor of ICI India, is returning to London as executive responsible for ICTe T Boone bows out regional businesses.

He will be replaced by Ashok Genguly (pictured left), who will take as non-executive chairman of the ICI subsidiary. Ganguly, 60, joined Unilever as a management trainee in 1962 - the same year as Ewart joined ICL He is currently Unflever's director of research and engineering, and has been a board member since 1990.
ICI India's new chief executive will

has been with the company for 28 Narayan has been working as a corporate planning officer at ICI's London headquarters since March, but before that beld a series of senior positions in ICI India, including overseeing divestment of the ICI Fertilizer

be Aditya Narayan, 44 (right), who

ess in 1993. Most recently, he was vice president, explosives for ICI India, with responsibility for the explosives business and ICI's establishments in the

east of the country.

Ewart, a Scot, joined ICI as a chemist and has been with ICI India since 1990. In his new capacity he will be responsible for overseas businesses that do not fit with its core internatime! activities

The various appointments take effect from August 1.

T Boone Pickens, the legendary corporate raider, is preparing to quit the corporate scene, though his departure comes with less of a bang than a whimper.

The 68-year-old Texas oil man announced last week that he is to step down as chief executive of Mesa, the energy company he founded 40 years ago. Mess once provided the platform for his assaults on giants of the industry like Gulf Off and Unocal. His planned departure marks the passing of control to Richard Rainwater, a Texas investor who is in the midst of e financial restructuring of the heavily indebted company.

It was an ignominious end for a man who once struck fear into some of oil industry's most powerful executives. Having placed a huge and unsuccessful bet on natural gas prices with the purchase of part of the mas-sive Hugoton gas field. Pickens has spent much of the 1990s trying to keep Mesa afloat. Since last summer he has also had to fend off attempts from a group of investors to take control of the company, leading eventually to the deal with Rainwater.

The great raider's departure was greeted by a jump in Mesa's share price. Standard & Poor's, the US rat-

ings agency, meanwhile said it expected to raise the company's credit ratings once the recapitalisation of the company is complete. Richard Waters

Mitsubishi's Sir Peter



named chairman of Mitsubishi Electric Europe, under a restructuring of Japanese group's European sales and market-

ng operations Sir Peter, 72, is a long time director and current chairman of Mitsubishi Electric UK. One of the rare Japanese speakers among his generation of British managers, he still finds the energy to chair several other UK companies and organisations, including the court of governors of the London School of Economics.

Mitsuhishi Electric Europe has been set up to create a unified approach to sales and marketing across the continent. Its president and chief executive is Tetsuif Takeoka, 54, who was previ-ously in the strategic planning department in Tokyo. Nim Castoell

ON THE MOVE

M ALGOMA, Canada'a third biggest steel maker, has hired Sandy Adam from Toyota Canada as president and chief executive Adam a steel industry veteran, became senior vice-president at Toyota in 1994 to supervise a C\$600m assembly plant expansion. At Algoma he succeeds Alan Hopkins, with whom he worked closely at Stelco, the second biggest steel producer, in the 1980s. Steven Scheid, 42, former

principal financial officer for First Interstate Bancorp, has been appointed executive vice president and chief financial officer of CHARLES SCHWAB CORPORATION. Gerard (Gep) Jansen has been appointed general

manager of CIGNA's eastern European region, based in Warsaw. Jansen joins Cigna after 20 years with American International Group (AIG). Dietrich Ruemker, deputy management board chairman et LANDESBANK

SCHLESWIG-HOLSTKIN, takes over as chairman from July 1. He succeeds Walter Schaefer, who will take over the same position at LANDESBANK HESSEN-THUERINGEN. Thomas Robinson, e 25-year COMPUTER SCIENCES

CORPORATION veteran, has president and president een named president of CSC's analytical instruments at technology management PERKIN ELMER group. He succeeds Roward CORPORATION, Baez was Pete' Boykin, who has moved previously executive to The Pinnacle Alliance in vice president of Baxter New York at JP Morgan. International. Michel Dande has been William Holden has been appointed president and chief

sppointed managing director of COGECOM, a holding company operating officer of within France Telecom. He HALLSMITH-SYSCO FOOD SERVICES, a division of Sysco, replaces Jacques Champeaux, director of France Telecom's the America food service company. Holden succeeds corporate division. Edward Hasty, who will William Walker has resigned become chatrman. as chief executive of ZULOG, Michael Newman, 47, has the US semi-conductor been appointed vice-president manufacturer. He will he of manufacturing for replaced by Robert Collins, EASTMAN CHEMICAL'S Latin previously Zilog's corporate America region.

Mathaniel Mass joins

GENCORP, the US

manufacturing group, as senior vice-president of strategic

growth. He was previously

Business Dynamics Centre

Steven Webster and Paul

Lloyd, respectively chairmen

READING & BATES of the US

membership of each other's

boards, on the basis that the

competitors in the future".

appointed to the newly created

Manuel Baez has been

position of senior vice

as a partner, he led the

and chief executives of

have resigned their

companies "may be

FALCON DRILLING and

with McKinsey and Co where,

controller. M Horst Bergmann, 58, chairman, president and chief executive of Times Mirror's Gight information publisher Jeppesen Sanderson, is to take on additional responsibilities as chief executive of TIMES MIRROR TRAINING, Edward Johnson, 52, whom he replaces is leaving the company after 12

Dave Robbins joins LEHMAN BROTHERS as head of emerging markets Brady and Eurobond trading – Lehman's seventh new hire this year in the group. Robbins was previously with Morgan Stanley, where he traded emerging markets instruments, Eurobonds and

other fixed-income products. Kenneth Davis has been appointed chairman of Alexander & Alexander Inc., the US risk management consulting and retail insurance broking subsidiary of ALEXANDER & ALEXANDER

Services. ■ Polar Tanoto, 41, has been appointed chief executive of ASIA PACIFIC RESOURCES INTERNATIONAL HOLDINGS. a pan-Asian producer of pulp, paper and rayon fibre, based in Singapore. He will continue to serve as deputy chairman. William Ris has been elected vice-president of government affairs for AMERICAN AIRLINES. He succeeds

Edward Faberman, who has left the company. M Neal Crowe becomes UK managing director of AKERLAND & RAUSING, the packaging group. He joins from Sidlaw Flexible Packaging. E Richard Ross has been appointed vice-president. finance and chief financial officer of INMET MINING, the former mining arm of Metallgesellschaft. He was

previously vice-president, ■ David Eldon, chief executive of Hongkong and Shanishat Banking Corp, e unit of HSBC Holdings, joins the board of SWIRE PACIFIC. He replaces John Gray, who resigned

following his retirement es Hongkong Bank's chairman and chief executive. Shang Fulin and Chen Yaoxin have been appointed vice governors of the PEOPLE'S BANK OF CHINA. Richard Carrión, chairman, president and chief executive of Banco Popular de Puerto

Rico, has been elected chairman of the INTERNATIONAL FINANCIAL CONFERENCE. Kevin Burns becomes president of WESTINGHOUSE Security Systems, a subsidiary of Westinghouse Electric

Corporation. Martin Loeffler rises to chief executive of AMPHENOL, manufacturers of connectors, in addition to his current responsibilities as president. Paul Bijvoets, 48, chief executive of Nedlloyd Lines joins the executive board of ROYAL NEDLLOYD from July 1. H.J. Helb retires on January

David Pendergast joins BIOGEN as vice-president quality assurance and quality control. He was previously director, quality assurance/ quality control of Fisons. Aporn Chewakrengkai has been appointed chief economist at DEUTSCHE MORGAN Grenfell Securities (Thailand). Aporn was previously with Thailand's

National Economic and Social Development Board, where he was director of economic analysis and projection E Graham Seatle, 44, joins the London-based security and speciality printing division of MDC CORPORATION of Torouto, as president & chief operating officer. He was previously director of security printing in Europe, for Thomas Takashi Tanaka is to resign

as chairman and become an adviser at the BANK OF YOROHAMA.

■ Thomas Dickerson has been named president of GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA succeeding James Watson, who is retiring. Three new area vice-presidents — Tommy Pritchard, Joseph Taylor Jr. and David Borchalt - will be based in Los Angeles, Dallas and Atlania.

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Cialms on Customers	44,468	37.313	Liabilities to Banks	16.329	T2 101	Net income from Commissions		72-20
- secured by mongages	12.944	12,415	14-11			Administration superistra	~130.8	1
- municipie louns	22.857	16.366	Liebilities to other Costomers	17.754	12.524	Risk Provisions/Ner Address fore		
Claims on Sanks	13.369	13,017			2.5	Adjustments	-112.1	167.6
Administered Funds (trustee	5.027	5,185	potal Captus Cincluding	1,671	1.659	Oceraning Results	99.2	* 31.9
funde/special-purpose funds)	1		sevenue reserves	-,,,,			40.2	
Total New Loan Commitmengs	15.719	10.740	Nomber of Employees	735	×	of profits of DSL Holome and	59.3	251

Of course, we'll be glad to send you all the facts and figures in our 1995 Annual Report. DSL Bank: 53175 Bonn, Kennedyallee 62-70, Phone; +49 (0)228/ 889243, Fax: +49 (0)228/889624, BTX *67889#, Berlin, Bielefeld, Dortmund, Dresden, Düsseldorf, Erfurt, Frankfurt,

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The Yatuda Trest and



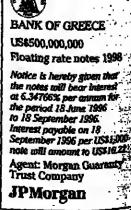
For the drace manniss 17th June, 1996 to 16th September, 1996, the Bonds will carry an interest state of 6.97% per taneous with an instruct amount of PTE 17.38 per PTE 100.000 Bond, PTE 17.377 per PTE 1,000,000 Bond, PTE 17.3773 per PTE 10,000,000 Bond, PTE 17.3773 per PTE 10,000,000 Bond, payable on 16th September, 1996, in respect of Compan No. 2. Lineat on the Lineatheur, 2004 Exchange.

Union Benk of Switzerland London Branch Agent Bank 13th June. 1996



European Investment Bank PTE 50.000,000,000 Floating Rate Bonds due 1998

For the three months 17th June, 1996 to 16th September, 1996, the Bonds will carry an interest rate of 7,00% per around with an interest amount of TE 1.25 cm. 1925 1925 1925 per anum with an interest amount of PTE 1,745 per PTE 100,000 Bond, PTE 17.452 per PTE 1,000,000 Bond, PTE 174,521 per PTE 10,000,000 Bond and PTE 872,603 per PTE 50,000,000 Bond, payable on 16th September, 1996. Listed on the Later Union Bank of Switzerland London Branch Agent Bank 1361 Jane, 1996



COMMODITIES AND AGRICULTURE

Trader claims third spot in world aluminium production league

By Kenneth Gooding, Mining Correspondent

Tree Walter

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17: Triz: 600

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Trans-World Metals has become the world's third-largest aluminium producer. This -startling revelation came yesterday from Mr Alan Bekhor. managing director of the UK based group that was previously best known as one of the world's biggest traders of the

7: At the first World Aluminium conference organised hy the Financial Times and the . CRU International consultancy organisation, Mr Bekhor pointed out that Trans-World with Russian associates con-

two of the biggest Russian alu-decision to huy the Krasno-We had the continuity of a minium smelters. Bratsk and yarsk shares, he said: "We profitable business to protect. Sayansk,

It had gained a similar position in the Krasnoyarsk smelter but was controversially removed from the register of shareholders. If Trans-World still held that stake it would challenge Alcoa as the world's biggest aluminium producer, Mr Bekhor pointed out in a paper provocatively called: "Can a trader become a pro-

Mr Bekhor explained that his group had no real alternative we simply could not afford to because it had built up such a run the risk that these shares hig trading position in Russia for alumina (aluminium oxide)

knew that these shares were potentially useless pieces of paper. We knew that there would he no dividends for years to come. We knew that there could be no capital appreciation and that the money to pay for them might just as well be written off. We knew we only had a few days

to raise the money. So, what

did we do? Why, naturally, we

bought them.
"We bought them because passed into the wrong hands. We already had a great deal of trolled more than 50 per cent of aluminium. Explaining the money at risk with the plant.

Under any circumstances, we were not prepared to let new owners take control. So more by default than by design, we hecame shareholders our-

selves." Mr Bekhor said that such opportunities for western groups in Russia were virtually gone. 'Most of the plants have passed through major restructacquired a framework of stable ownership and management control. Western companies have now either made their move or stayed aloof. By now they are either in or out, or

Trans-World has now turned its attention to Kazakhstan where it is involved in a US\$1.2bn project to build a new aluminium smelter and expand the existing alumina complex. Other speakers at the confer-

growth and with dynamic comparties reshaping themselves to harvest the potential benifts. Mr George Haymaker, chairman of Kaiser Aluminum, the US group, recalled that aluminium had been dubbed "the mid-dle class metal" because demand rises with standards of living. He said if emerging

markets with a per capita

income of US\$5,000 moved up

ence painted a picture of an industry poised for substantial

to \$10,000, global aluminium industry" capacity would have to be lifted from the present 20m tonnes to nearly 50m tonnes. Kaiser was contributing to

increasing capacity at existing plants with a system in which minicomputers helped operate potlines at smelters. Already this system, Celtrol 11, had been installed in 14 smelters controlling nearly 10 per cent of world production capacity, Kaiser's retrofit technology would also be used in a joint venture recently signed with China National Nonferrous Metals Industry Corporation. "representing the first signifinese aluminium smelting

Mr Jim Lennon, analyst at Macquarie Bank Group, said that, in spite of planned expansions. China would have a growing need for imported aluminium. Between 350,000 and

imported by the year 2,000, he India was also facing a boom in aluminium demand, accord-ing to Mr A.S.K. Agarwala. president of Hindalco Industries. India's requirement for primary aluminium would be about 1m tonnes by 2000 compared with today's capacity of 670 000 tonnes. Hindalco hoped to help fill the gap by expanding annual capacity at one smelter hy 32,000 tonnes to 242,000 tonnes and by building

400,000 tonnes a year would be

This project, still in feasibility stage, would cost about \$2bn. Mr Yousuf A Al-Shirawi, former Minister of Development and Industry, Bahrain, said the Gulf States were ready for new aluminium capacity. Production in the area had got off to a shaky start 30 years ago because big aluminium companies refused to become involved, but the area now had its own expertise. However. forecasts that the region would

a 250,000 tonnes new smelter

with associated power plant

and downstream activities.

by 2000 were unlikely to be

Even the US, until receouly on no one's list of potential new smelter sites, was now back in the running following deregulation of the power industry there, according to Mr Kenneth Peterson, chief executive of Columbia Aluminium.

The news from Russia was not so positive. According to Mr Christopher Stobart, managing director of Resource Strategies, London, the Russian smelting industry was no longer a low cost industry and would never again be a low cost industry until some major re-structuring and cost-cuttures was done. But, even though the industry was apparently unprofitable, it did not mean it was on the verge of closure.

Mr Jean Pierre Rodier, chair man of Pecbiney of France. said described the group's "Challenge" programme to become as efficient as its rivals on schedule. He was sure it would achieve than the previously promised annual savings of FF1.5bn by 1999. Mr Jochen Schirner, chairman of VAW Aluminium, described the reorganisation of his group into business units, more flexible to deal with market pressures.

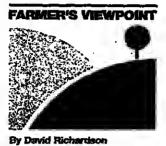
Biotech offers best hope for a hungry world

Genetic crop modification will be necessary to keep up with population growth

ow that the UK government has banned meat and bonemeal meat and bonemeal from inclusion in animal feeds. those who formulate euch rations have been forced to seek alternative sources of protein. Fishmeal is a traditional favourite, hut as quota-controlled British fishermen are well aware there is a world shortage of fish, so that which is available is expensive.

Soyabeans have been a key source of protein in many Asian countries for years, of course, And the meal that is left after oil has been extracted for human consumption is a rich source of protein for most farm animals. It was the obvious choice to replace meat and bonemeal and its purchase price has risen on UK markets from £130 to £220 a tonne since the M&B ban was imposed, thereby significantly raising the cost of feeds. World reserves of soyabeans are, like those of other grains, extremely low and it would clearly be beneficial if production could be increased.

In the short term high prices will encourage farmers who can grow soyabeans to plant more of them; but suitable genetic material in the cells of its DNA which is tolerant to



land combined with the required hot climate is limited. So, as the global population doubles in the next 50 years it will be down to plant breeders to produce varieties that will yield much higger crops. The

only realistic chance of that

happening is by the use of

genetic modification. Acknowledged world leader in agriculture biotechnology is American chemical company, Monsanto, At its St Louis laboratories recently I tried, not for the first time, to get to grips with exactly how it is possible to modify a plant genetically. The simple explanation I liked best was that it involved taking the DNA - the hasic

every living organism - and "entting and pasting" segments from one organism to

It is not that simple of course, hat it helped me to appreciate the accuracy that it is possible for scientists to achieve. Monsanto claims, moreover, that "our plant biotechnology future is not a matter of chance. It is a matter of choice. We choose to be committed to improving our environment and to enhancing the lives of future generations". The implication behind that claim includes the assurance that not only will biotechnology enable yields to be increased but that this will be able to be achieved safely, with fewer pesticides and therefore with less damage to the environment than is caused by current production methods.

But that is still some years away. Some of the first genetically modified plants from Monsanto do not claim to increase yields but to enable more efficient weed control. The company has, for instance, introduced what it calls a Roundup Ready soyabean. A gene has been introduced into

Roundan - a highly efficient and safe general purpose weedkiller originally patented by Monsanto. This means that crops can be sprayed against weed infestation just once during their lifetime; that the crop itself will be unaffected and that near perfect weed control can be achieved. Left uncontrolled the weeds would signifi-

cantly reduce production. Monsanto is developing similar traits of Roundup tolerance in sugar beet, oil seed rape and maize. Agronomically the concept is attractive - always provided the tolerant varieties do not "volunteer", that is grow in the following crop on the same land from seeds accidentally spilled the previous year, and themselves become weeds that cannot be controlled. This possible danger has been iden-tified by the National Farmers' Union of England and Wales, which otherwise broadly welcomes the potential contribution biotechnolgy can make to

farm production. The NFU's working party on the subject went on to recog-nise that "the uptake of this technology by primary producers, food manufacturers and retailers would be influenced

SOFTS

significantly by public perception of hiotechnology"; a reflection, no doubt, of the sensitivities of UK consumers to food scares, British farmers are anxious to avoid subscribing to any more perceptions that might alienate customers.

In America such concerns are largely discounted and even the need to label geneti-cally modified food is ques-tioned. "All we are doing," said some US scientists I spoke to, "is to continue the work that plant breeders have been doing for hundreds of years, except that we can do it faster and more accurately." My response was to say "OK, so explain to the public what you have done and then label the produce so that they can see you have nothing to hide". The debate

continues. Meanwhile the range of genetically modified crops ready or almost ready for commercial use continues to grow. A Monsanto subsidiary has developed a Russet Burhank potato, which is 100 per cent resistant to ettack hy Colorado beetles and therefore does not need to be sprayed with insecticide. Similarly the company is in course of developing vari-

eties of cotton whose leaves poison one of the greatest pests of cotton - bollworms. One mouthful and the worms curl np and die, eliminating all of the many applications of chemical normally sprayed on the crop to protect it from the boll-

Work is progressing on varieties of wheat that will be resistant or tolerant to the many fungi which attack it. Melons, rice, tomatoes, peppers and so on are all the subjects of ongoing scientific developments which should lead to fewer chemicals.

Having seen such scientific

developments in Britain, America and several other countries I do not pretend to fully under stand the procedures but I have become convinced of the ethics of those who are controlling the work. I believe that genetic modification does hold virtually the only key to feeding the world in the future. But there is still an enormous ich to do to educate and explain to consumers that food from such plants is likely to be more, not less, safe and environment friendly than what we eat at present.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

MARKET REPORT

Cocoa futures tumble

London Commodity Exchange COCOA futures tumbled to end sharply lower yesterday with nearby delivery positions sustaining the biggest losses and September hitting the closelywatched £1,117-a-tonne support

Traders said the sentiment was also weighed down hy continued liquidation in New York ahead of July contract'e first notice day. The September contract in

London recovered marginally to close at £1,119 a tonne, still down £20 from Friday. The London market has been underpinned by a key gap

JOTTER PAD

said yesterday's sharp retracement to the bottom end of that territory could spark a strong upward technical reaction. "It's going to make the mar-

ket stronger when it goes up

again," said one, Talk of a late and smaller lvory Coast harvest this year has kept cocoa market sentiment upbeat of late. LCE robusta COFFEE futures rebounded from early losses to end higher on light

speculative huying, hut gains

were centred on deferred

months, traders said. Compiled from Reuters between £1,132 and £1,117 for

COMMODITIES PRICES

BASE METALS LONDON METAL EXCHANGE Prices from Amalgamated Metal Trading). M ALUMINIUM, 99.7 PURITY (5 per torne)

Matylow NA Diselet	1454-5	1495-6
AM Dificial	1404-0	f-100-m
Kerb close		
Open Int.	na,	
Total daily turnover	ne,	
M ALUMPHUM ALL	DY (\$ per torthe	
Close	1230-35	1265-70
Previous	1240-50	1275-80
High/low		
AM Official	1210-20	1250-55
Kerb alone		
Open Inf.	rig.	
Total delity furnover		
■ LEAD (S per tonne	<u>)</u>	
Claso	772.5-3.5	780-1
Previous	774-5	779-80
High/low		****
AM Official	761-1.6	770-1
Kerb close		
Open int.	na.	
Total daily tumover	ne	
■ NICKEL (\$ per ton		
Close	7655-65	7766-70
Previous	7745-50	7850-60
High/low		7775-65
AM Official	767 6 -7	1112-00
Kerb close	rei.	
Open int.	UR.	
Total delity turnover	i mit	
TIN (\$ per tonne)		D475.00
Close	6170-80	6175-80
Previous	6210-20	DZ 10-13
High/low	6180-90	6160-80
AM Official	0100-00	0,00 30
Kerb close	me	
Open int. Total daily turnover	na.	
23NC, special high		tome)
	999-1000	1025-6
Close		1033-34
	1008.5-9.5	
Previous	1008.5-9.5	
Pravious High/low	1006.5-9.5 993-4	1019-9.5
Previous High/low AM Official		
Previous High/low AM Official Kerb close	993-4 ma	
Previous High/low AM Official Kerts close Open mt. Total deily turnover	993-4 rs	
Previous High/low AM Official Kerts close Open mt. Total deily turnover	993-4 rs	
Previous High/low AM Official Kerb close Open mt. Total delily tumover COPPER, grade A	993-4 rs	1919-9.5
Previous High/low AM Officiel Kerb close Open mt. Total delly tumover B COPPER, grade A Close	993-4 ria no (5 per tonne)	1619-8.5
Previous High/low High/low AM Official Keris close Open mt. Total deily tumover BE COPPER, grade A Ciose Previous	993-4 na na (\$ per tonne) 2080-90 2140-50	1990-1 2035-40
Previous High/low AM Official Kerts close Open mil. Total delly tumover COPPER, grade A Close Previous High/low	993-4 na na (\$ per tonne) 2080-90	1919-9.5
Previous High/low AM Official Kerb close Open mt. Total delly tumover COPPER, grade A Close Previous High/low AM Official	993-4 na na (\$ per tonne) 2080-90 2140-50	1990-1 2035-40
Previous High-Yow AM Official Kerb close Open mt. Total deily tumover Total deily tumover COPPER, grade A Close Previous High-Yow AM Official Kerb close	993-4 na na (\$ per torne) 2980-90 2140-50 1990-90	1919-9.5 1990-1 2035-40
Previous High/low AM Official Kerts close Open mt. Total deily tumover COPPER, grade A Clase High/low AM Official Kerts close Open int.	\$93-4 na na (\$ per tonne) 2080-90 2140-50 1980-90	1919-9.5 1990-1 2035-40
Previous High/low AM Official Kerb close Open mt. Total delly tumover COPPER, grade A Close Previous High/low AM Official	993-4 na (5 per lorne) 2080-90 2140-50 1990-90 na na	1990-1 1990-1 2035-40 1920-30

-0.30 95.20 95.00 -0.50 93.80 87.80 92.70 PRECIOUS METALS IN LONDON BULLION MARKET (Prices supplied by N M Rotinschild) E could SFr equit \$ price 385.00-385.40 384,30-384.70 384.55 385.00

Spot. 1.5453 3 miles: 1.5443 6 miles: 1.5446 9 miles: 1.5455

671 2.288

Day's High 385.30-385.70 Day's Low 384.20-384.60 Previous close 384.00-384.30 Loos Life Mean Gold Lending Rains (Va USS) US ets squiv. 518.60 522.60 529.45 543.30 \$ price 385-388 394.70-397.20 55-57

Preclous Metals continued ■ GOLD COMEX (100 Troy oz.; \$/troy oz.) Just 365.0 +0.2 385.0 384.3 55 93 Jul 385.9 +0.2 - - - - Sup 387.3 +0.2 387.8 388.3 25,772 91,000 Mov 382.9 +0.2 380.4 389.8 180 7,500 Jun 382.9 +0.2 383.4 389.8 180 7,500 Jun 382.9 +0.2 383.4 389.8 180 7,500 Jun 383.9 +0.2 383.4 383.0 88.7 383.7 IN PLATINUM NYMEX (50 Troy oc.; S/troy oz.)
 394.8
 -1.0
 596.5
 594.5
 1,384
 13,582

 367.7
 -1.0
 399.0
 397.1
 552
 11,343

 400.7
 -1.3
 15
 1,294

 403.7
 -1.0
 405.0
 405.0
 5
 1,755
 1.958 27.989 PALLADIUM NYMEX (100 Troy oz.: \$/troy oz.) 130.65 -0.90 132.00 132.00 68 146 131.35 -0.70 132.50 131.05 282 6,829 132.45 -0.70 133.50 133.50 2 205 134.60 -0.70 - 106 SILVER COMEX (5.000 Troy oz.; Cente/troy oz.) +1.0 - - 17 17 +1.1 525.5 517.0 5,645 30,478 +1.2 633.5 527.5 771 13,035 +1.2 533.5 527.5 771 13,035 +1.3 539.0 537.0 23 5,320 ENERGY CRUDE OIL NYMEX (1,000 barrels. S/berrel) 18.94 4,245 37,284 18.62 1,449 27,209 18.40 143 21,529 18.34 806 35,076 E CRUDE OF IPE S/barrel 31,129 166,884 HEATING OIL WINEX (42,000 US gails; o/US gails.)

7,908 20,278) 3,778 17,999) 899 9,560) 161 5,471 ; 284 6,729) 598 18,775 13,951 98,586 \$3.45 +1.30 53.45 51.61 \$3.45 +1.39 54.70 \$2.10 \$3.45 +1.29 54.70 \$2.00 \$4.20 +1.00 54.70 \$2.00 \$4.00 +0.69 \$4.70 \$3.50 \$5.10 +0.84 \$5.60 \$4.50 +4.25 163.00 158.75 +4.25 162.75 156.75 +4.26 159.75 169.75 123 2,556 10 1,530 480 9,166 +4.25 164.25 181.00 M NATURAL GAS WINEX (10,000 medial; 5/medial) prises shanger | 1859 | 2,490 | 8,010 | 25,554 | 2,530 | 40,021 | 2,505 | 2,525 | 4,529 | 31,348 | 2,500 | 40,048 | 2,500 | 2,545 | 1,731 | 18,575 | 2,575 | 40,040 | 2,550 | 2,525 | 1,452 | 17,051 | 2,575 | 40,027 | 2,575 | 2,455 | 7,331 | 11,455 | 2,575 | 40,027 | 2,575 | 2,455 | 7,331 | 11,455 | 13,005 | 140,075 | 13,005 | 140,075 | 13,005 | 140,075 | 13,005 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 140,075 | 1 61.05 +1.45 51.00 52.00 60.30 +1.48 61.00 58.00 58.05 +1.25 58.40 57.00 58.50 +1.25 58.50 56.70 55.00 +1.15 55.00 54.76 54.10 +1.10 54.10 65.75

COCOA LCE (E/tonne) M WHEAT LCE (£ per tonne) 11525 -3.00 116.75 115.25 111 762 113.25 -0.20 113.25 113.25 2 390 114.85 -0.30 115.00 114.75 133 3.013 116.85 -0.30 - - 1,004 121.00 -0.25
 482.00
 -4.00
 508.50
 491.00
 8,795
 33,225

 497.50
 -3.00
 507.00
 497.00
 4,912
 24,477

 507.01
 -3.50
 518.00
 506.00
 3,440
 20,808

 506.00
 -3.25
 518.00
 506.00
 210
 2,835

 482.00
 +5.00
 485.00
 483.00
 5
 106

 437.00
 +2.00
 436.00
 435.00
 38
 1,998

 437.00
 -6.00
 -6.00
 -6.00
 -6.00
 60.00
 -6.00
 MAIZE CET (5,000 bu min; cents/58tb bushel) 499.50 -5.23 471.50 456.00 22.675 88,165 378.00 -7.5 396.00 376.00 12.885 69,714 345.50 -2.75 386.00 344.00 28,117 165,722 350.25 -3 363.00 380.00 1,35 21.561 351.50 -4 363.00 381.50 1777 4,163 350.25 -4.25 361.00 380.00 416 4,400 485.663.885 586.886 BARLEY LCE (E per tonne) 105.75 -0.45 106.00 106.00 2 73 107.75 -0.50 108.25 107.75 21 716 108.75 -0.75 - - 141 111.75 -0.50 - - 41 113.00 -0.05 - - 6 773.00 +3.25 762.00 766.00 12,162 45,560 787.50 +2.75 777.00 763.75 4,028 21,457 749.25 +5.5 759.00 748.00 961 7,957 749.25 +6 752.00 742.00 254 5,927 749.00 +4.5 754.50 749.00 33,940 181,705 25.86 +0.11 25.97 25.86 \$286 27.897 25.84 +0.12 20.15 25.90 2.877 15.858 25.05 +0.12 25.92 25.98 1,246 7.915 25.20 +0.1 25.40 25.19 598 5.774 25.46 +0.17 25.78 25.38 3,351 24.814 25.55 +0.2 25.80 25.73 140 1,927 SOYABEAN MEAL CET (100 tons; \$/ton) +24 240.0 297.3 8,958 34.204 +2 298.5 298.9 4,730 15,076 +1.0 299.5 296.0 1,311 9,199 +1.8 294.5 290.8 323 4,515 +1.7 294.0 290.0 2,617 22,060 +1.8 292.4 290.3 60 2,254 POTATOES LCE (E/torne) -4 1235 -2 1190 -12 --15 1305 -15 1370

GRAINS AND OIL SEEDS

FUTURES DATA

The Tea Broker's Association reports improved and more general demand. Lended bright East Africans seed well at firm to other dearer levels. Octoury mediums were a strong feature and prices advanced 24 pence. Ottshore good demand at dearer rates. Outstations: Best available 131p/leg., good 126p/leg., good medium 116p/leg., how medium 82p/leg. The highest price realized this week was 131p for a Kenya pf. 1.

Self: Day's | Open | Fight | Low | Vet | Int | 63.190 | -0.590 | 68.300 | 62.950 | 2.520 | 4.975 | 65.975 | -0.350 | 66.400 | 65.825 | 5.141 | 32.925 | 64.775 | -0.325 | 65.090 | 64.750 | 72.3 | 11.886 | 72.3 | 11.886 | 72.3 | 11.886 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 | 72.3 -21 1106 1882 472 8,888 -20 1132 1117 1,020 45,305 -20 1062 1044 2,305 38,362 -9 1050 1038 1,820 38,625 ■ COCOA CSCE (10 tonnes; \$/tonnes) M LIVE HOGS CME (40,000lbs; cents/lbe) 48.675 -1.100 -50.200 48.500 61.925 -0.925 53.250 51.850 74.200 -0.450 75.350 74.400 18,794 88,814 COCOA (ICCO) (SDR's/tonne) 72.750 -2.000 74.700 72.750 1.171 4.136 - 79.000 COFFEE LCE (S/tonne) +10 1840 1616 1,089 12,320 +8 1780 1755 1,846 6,793 +13 1750 1725 817 3,977 +17 1721 1790 149 2945 +15 - 985 +25 - 65 1745 1715 1673 1675 LONDON TRADED OPTIONS Strike price \$ tonne 120.70 +2.75 121.60 117.60 2.690 7.826 1900 ... COFFEE (ICO) (US cents/pound) COFFEE LCE 1850 .. 1900 .. Arrg 387.0 +0.2 287.4 386.0 689 9 0ct 348.0 +1.6 348.5 348.6 678 6 0cc 334.5 +1.4 335.1 333.0 343 3 343 329.6 +2.0 328.7 326.0 36 4 16cy 328.1 +1.8 327.0 328.8 2 2 16cy 326.5 +2.2 325.5 325.5 325.5 325.6 3 1,754 27 188 SUGAR *11' CSCE (*112,000lios; cents/lbs) 1075_____ 11.67 - 11.72 11.61 6,142 45,029 11.23 +0.07 11.26 11.13 4,730 48,227 10.84 - 10.85 10.80 3,285 33,470 10.87 +0.02 10.89 10.83 702 11,432 10.53 +0.01 10.85 10.82 108 10,308 10.46 +0.04 10.48 10.45 50 4,573 LONDON SPOT MARKETS 77.93 +1.84 78.50 76.50 8.483 12.914
77.30 +0.30 78.00 77.25 2,334 5,982
78.47 -0.00 77.50 78.70 8.339 20,905
77.95 +0.05 78.50 77.90 787 8.580
78.43 +0.22 78.65 78.63 223 2,889
79.10 +0.15 - 88 1,419 Heavy Fuel Of Nephtha Jet fuel \$170-171 MATURAL GAS (Pen 637 9,210 433 7,078 158 1,502 149 3,762 14 278 54 183 122.75 +1.30 122.90 121.60 Petroleum Argus, Tel.

OTHER 119.95 +0.60 120.35 119.30 116.10 - 116.75 116.10 114.50 +0.30 115.00 114.30 Gold (per troy oz) 14 278 54 183 1,486 22,483 +0.75 116.25 115.90 Patinum (per troy oz.) Patindium (per troy oz.) 5129.90 115.0c Copper Lead (US prod.) 45.00c Tin (New York) 15.12 101.58p 121.81p

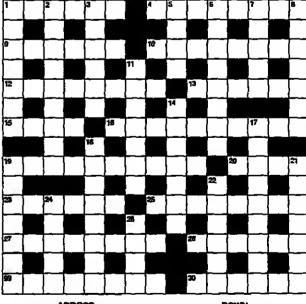
OIL PRODUCTS NWE prompt delivery CIF Bonne COTTON NYCE (50,000fbs; cents/fbs) ■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) 10.90-11.50 +0.5 (0171) 359 6792 Cattle (live weight) Sheep (live weight) Pigs (live weight) Lon. day sugar (val) Lon. day sugar (wa) Barley (Eng. fead) Meize (US No.3 Yellow) Wheat (US Dark North) VOLUME DATA \$403.0 Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CST, NYCE, CME, CSCE and IPE Crucia Oit and one day in arrears. Volume S Open Interest totals are for all traded months. Rubber (Juli)* Rubber (Aug)* Rubber (ICL RSS No1) 100.25p 100.25p 371.50m Coconut Oil (Philips 880.0v \$505.0 \$557.0w 212.0z Jun 17 Jun 14 month ago year ago 2048.1 2057.5 2122.6 2293.3 Copra (Philis Soyabeans (US) ■ CRB Futures (Base: 1967≈100) Soyabagiis (US) Cotton Outlook'A' Index Wooltops (64s Super)

£ per tenne unless adverse

naggiving. In Massysten Jun 14 Jun 13 mouth ago 248.05 248.91 259.59 ■ GSCI Spot (Base: 1970=100)

CROSSWORD

No.9,097 Set by DANTE



2 Not to be made light of (9)

body (4)

trapped? (8)

8 Pays for lights (7)

Nelly is confused about love, and without boyfriends (6)

6 Went round the bend when

7 Note overdue transport (5)

11 He made engravings of boar and wild hart (7)

14 Meets Sid and Joan when out

16 No raceborse alive is one (4.4) 19 He used to get a shilling for

26 Left in charge but desert

(7) 17 Mariner's dependant (9)

his subscription (7) 21 Swimmer who may develop

into a jumper (7)

one's post (4)

1 Very loud in order to annoy 1 Love of fiction (7)

Thieves commonly said to take ladies' underwear (8) Sheep doctor going round 5 Welshman uplifted by church Ireland (6)

10 Not very bright, so extra-shy 12 A 20-franc piece lost at Water-13 Show how a lever works (6) 15 Wild rose - the symbol of

love (4) 16 Used by riders - but not riding breeches (6.4)
19 Light diversion? (10)
20 Egg on a steak, say (4)

23 Not a bird, it chirps and flies breeding ground of pests (8)
22 Recent change of heart (6)
27 It could go up in the depres
24 Lengthy communication (5)

28 One way to lost is to walk ieisurely (6) 29 What scores of young people

Solution to Saturday's prize puzzle on Saturday June 29.

INTERNATIONAL CAPITAL MARKETS

Worries about US rates flatten bund yield curve Swift opens up to

By Antonia Sharpe in London and Lisa Bransten in New York

Jitters about interest rates kept European government bond markets in a narrow range yesterday. Analysts said heightened expectations of a rise in US rates at the July FOMC meeting were the main source of nerves in Europe.

Markets are likely to trade negatively until the FOMC meeting, said Ms Marie Owens Thomsen, chief economist at BIP-Dresduer in Paris. She said spreads should hold current levels unless the dollar weakened significantly.

Worries about a rise in US rates have triggered a dramatic flattening in the German bund yield curve, with the spread between five-year and 10-year bunds shrinking to 115 basis points from a peak of 135 basis points from a peak of 135 basis
Points just 10 days ago, said Mr

Yesterday, bunds bounced back on the results of the Rus-

David Hewitt, bond market sian elections but analysts strategist at Tokyo Mitsubishi remained nervous about their international in London, During the same time, the spread between two-year and five-year paper has come in to 123 basis points from 135 basis points.

Although the curve flattening was thought to be overdone, the German market has become increasingly negative about a further cut in headline interest rates. Ms Phyllis Reed, European bond strategist at BZW. said euro D-Mark futures were predicting rates of more than 3.8 per cent by December. a half-point rise from current

Ms Reed said that in addition to a possible tightening by the Fed, signs of an upturn in the German economy would be a another deterrent to further easing by the Bundesbank.

near-term direction, particu-larly if money supply data due this week are disappointing. future eased 0.06 to 94.49 in turnover of 84,712 contracts.

GOVERNMENT BONDS

■ French bonds remained vulnerable after their fall late last week, mainly due to a weaker franc and signs of short-selling by international investors in the futures market.

BIP-Dresdner's Ms Owens Thomsen said foreigners were probably using the futures market because they had already sold down their cash positions.

She noted that net sales of Mr Simon Briscoe, UK econo-French government bonds in mist at Nikko, said the data

ous peak in the first quarter of 1994, and that just 15 per cent of the market was now in foreign ownership, compared with about one-third in Germany. On Matif, the September 10year notional government bond

future fell 0.28 to 120.88 in vol-ume of 104,434 contracts. Although the cash market was not affected yesterday, analysts said selling pressure could spill over. The cash merket's resistance left French

government bonds still yielded

4 basis points less than bunds.

W UK gilts traded quietly ahead of a busy week for economic data, starting with May PSBR figures due today. The market will be disappointed if the figure is above 23bn.

the first quarter of this year, of were likely to spark a debate FFr91hn, had beaten the previabout funding. He noted that the Bank of England was meeting gilt edged market makers yesterday and investors today to discuss funding over the next quarter. Ha believes sentiment on the subject will improve in coming months, after being a "big negative" over past months.

The market should also get details today of next week's glits auction. The overwhelming forecast is for a 53hn fiveyear floating rate note priced to yield Libid less 1/4. On Liffe, the September long gilt future sased 1/4 to 104% in

US Treasury prices were nearly flat in quiet trading early yesterday as traders held positions at the beginning of a week with little to affer in the

NEW INTERNATIONAL BOND ISSUES

volume of 21,499 contracts.

Near midday, the 30-year Treasury was up it at 38% to yield 7.081 per cent, the twoyear note was down & at 99%. yielding 6.291 per cent and the September 30-year Treasury bond future was up & at 107.

Wall Street remains divided on whether the Federal Reserva will raise interest rates at the FOMC meeting next month, and there is little economic data due this week to sway opinion. ---

Rising commodity prices and a weaker dollar put some pres-sure on bonds yesterday. The Knight Ridder/Commodity Research Burean index was up 1.75 to 250,80 as crude ell prices

rose in early trading.

The dollar slipped against both the yen and the D-Mark, changing hands at Y108.86 and DM1.5165 compared with Y109.21 and DM1.5270 late on Friday.

ETC providers

By George Graham, Benking Correspondent

Swift, the international financial message system, has agreed to open its network to electronic trade confirmation service providers, raising the prospect of closer links between banking and securities settlement systems.

The decision would allow leading ETC providers - the London Stock Exchange, the International Securities Market Association and Thomson Electronic Settlements - to connect their services to Swift's network, which links 5,300 financial institutions in 137 countries. ETC systems allow brokers and fund managers to check details of a trada before

it goes to settlement.
However, Swift says the ETC vendors will have to adapt their software to its standards, while the three vendors, who already have links with each other, feel Swift should adapt to their protocol. The ETC pro-viders also worry that Swift is trying to gain access to their customer base among securi-ties companies, without reci-

They want the ability to send messages to banks which offer custody services through Swift. "They've got all the banks, and we've got all the fund managers and brokers," one

ETC provider said. But some fund managers believe the Swift decision does open the way for them to move to the holy grail of the financial back office: straightthrough processing, in which trade, trade confirmation and settlement can all be handled electronically without having to stop for details to be re-entered manually.

"This decision creates an opportunity for us to achieve true straight-through process-ing," said Mr Richard Flack, director of central data services at UBS Asset Manage-

ment in London. Ms Anna Hannon, vice-president of Citibank, also backed the move. The industry has long needed a common facility to verify trade details prior to settlement. It will eliminate many of the very costly fails and unwanted risks inherent today in cross-border securities procating by allowing them activity," she said.

Morgan Stanley plans Taiwan fund joint venture

— Low coupon yield — -- Medium coupon yield — -- High coupon yield — Jun 17 Jun 14, Yr, ago Jun 17 Jun 14 Yr, ago Jun 17 Jun 14 Yr, ago

Morgan Stanley, the US investment bank, intends to set up a mutual fund company in Taiwan with partners including the ruling Knomintang (KMT) party.

Mr Liu Tai ying chairman of the KMT's business affairs committee, said Morgan Stanley would set up the company in partnership with the KMT's Central Investment Company and Grand Cathay Securities. A committee member said the three investors would

7.91 8.15 8.15 9.21

seek investment up to a total of NT\$3bn before entering the NT\$200bn market. The proportion of seed capital to be contributed by each partner has yet to be decided.

A KMT official said yesterbeen negotiating with the party for two months, Initially, Morgan Stanley wanted to set up its own mutual fund company in Taiwan, but after consideration decided it needed local understanding of the market and sought out the KMT,

Bayerische Vereinsbank taps the four-year sterling sector

By Conner Middelmann

The primary eurobond market was alightly subdued yesterday, with a crop of mediumsized transactions aimed largely at retail investors.

The sterling sector, which has been the focus of reviving attention by retail accounts in continental Europe, saw a £125m four-year offering for Bayerische Vereinsbank priced to yield 12 basis points over

"We have seen continued interest in the shorter end of the sterling sector, where bonds have been tightening further recently," said a syndi-cate official at lead manager ABN Amno Hoare Govett.

While the 1999 and 1998 maturities had become "a bit saturated" by recent sopply, the 2000 area was still going

Rabobank Nederland, the triple A rated Dutch bank, launched \$200m of two-year bonds priced at a spread of only one basis point over Treasurles and aimed at European retail investors.

INTERNATIONAL

"Dollar redemptions are high this year, the currency is strong and Rabobank is very popular with retail investors -this should go well," said a dealer with lead manager Bear Stearns. The spread widened to 4 basis points after the bonds

were freed to trade. Compagnie Parisienna de Reescompte, the French financial institution, issued \$200m of floating-rate notes priced to at the re-offer price, markedly

margin on its debut floating-rate note issue last summer, with BNP.

The supply of floaters offering double-digit spreads over Libor has been very limited and there is a huge amount of liquidity and hunger for yield out there," a syndicate official

In the D-Mark sector, KfW International Finance issued DM300m of four-year bonds yielding a mere 3 basis points over bunds. Nonetheless, lead manager ABN Amro reported good demand from Swiss retail investors and from some insti-tutions in Luxembourg and the

Also in the D-Mark sector Venezuela Investments offered yield-hungry retail investors a special treat. The special-pur-pose vehicle swapped Venezue-lan Brady bonds into D-Marks

Bradys.

been done with Argentine and

Borrower US DOLLARS	Amount m.	Coupon	Price	Maturity .	Foos %	Spread	Book-rurener
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D-MARKS - KW Instructional Finance() Venezuele Investments(b)	300 100	5.25 15.000	39.88R 99.00R	Jul 2000 Apr 2007	0.225R 1.50R	-55% W-00)	ABN Amro Hodre Govett Parlogs Capital Markets
SWISS FRANCS Viedercesterreichtsche LB Hypo	100	4.26	102.40	Jul 2000	1.75		SBC Westung
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REENCH FRANCE Compagnia Bancaire(c):	2bn	(c1)	\$9.60A	Jul 2003	0.15R	-	OCF
LIXERGEOURG FRANCS	2bn	£.75	102.35	Dec 2004	2.00		BGL
TALIAN LIRE Seyertache Vereinsberido)	150bn	(41)	101.725	Jul 2001	1.875	• .	Credito Italiano
LUSTRALIAN COLLARS LUSTRALIAN Industry Day Corp.	100 ·	9.125	101.835	Jul 2006	2.125	· -	ABN Armo House Govett
PESETAS Missel Credit Institutes	10bn	(6)	100.00	Jun 1989			Nativest Micts, Mactrid Bro

96 at 99,40%. Callable and puttable from Jul 97 at 99,45% rising 0.05% per que 98, then 9%%. at 6-mit Liber +7%bp. ij Long 1st coupen. at Short 1st coupen a long-term rating of BBB+ to the \$175m of bonds issued by and issued DM100m of eurohands with a hefty 15 per cent

1 Up to 5 years (22) 2 5-15 years (19) 3 Over 15 years (5) 4 fractionnables (5)

coupon, which carry the same Similar transactions have

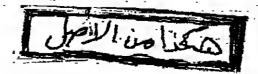
Brazilian Bradys in the past. Lead manager Paribas Capital the City of Naples, and has raised its long-term rating on Markets reported strong CEZ Finance, the financing arm of the Czech power utility, Switzerland, Italy, the Benefux Standard & Poor's assigned

FT-ACTUARIES FIXED INTEREST INDICES

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CURRENCIES AND MONEY

MARKETS REPORT

D-Mark rallies after Yeltsin election success

By Philip Gawith

The D-Mark rallied slightly on the foreign exchanges yester-day following the solid show-ing by President Boris Yeltsin to the first round of the Russian presidential elections.

Political risk had weighed on the German currency in the run-up to the elections because the physical proximity of the two countries was aeen as making Germany vulnerable to any setbacks in Russia, such as the election again of a Commu-nist-style leadership.

The D-Mark is also benefiting from an apparent reassessment in the market of the outlook for German and US interest rates, which affects the Dollar/D-Mark rate.

The dollar closed yesterday in London st DM1.5177, from DM1.5229. Against the yen it finished at Y108.845, from Y108.725.

Trading was generally quiet with price movements extremely subdued, although

this was partly attributable to had continued to call for a the market waiting on the stronger dollar, but the latest release later this week of the German M3 figures, and the Beige book in the US, both of which have the potential to influence interest rate and cur-

rency sentiment The firmer dollar helped the pound, with the trade weighted index closing at 85.8, from 85.6. Against the D-Mark the pound closed at DM2.3448, from DM2.3406. Against the dollar it finished at \$1.5455 from \$1.587.

While market sentiment towards the dollar remains bullish, there are increasing rumblings which do not augur well for the US currency.

One such portent emerged in the Bundesbank's monthly report. Until recently the bank

1.5370 1.5385 1.5381 1.5365

report suggests it believes most of the dollar's correction against the D-Mark has taken place. "It is no longer the case that the Bundesbank is actively seeking a stronger dollar," said Mr Jeremy Hawkins, chief economist at the Bank of America in London.

Aside from official comments, he pointed to two other events which suggest some sort of reassessment about the outlook for the D-Mark. One was the stable performance of the German currency in the run-up to the Russian elections, notwithstanding some opinion polls which might have been expected to cause

some nervousness.

The second factor concerns interest rate expectations. Mr Hawkins said that the evidence of this lay in the tightening last week of 1/4 per cent in German cash rates, despite the widespread expectation of a "good" M3 number which

Cormany 38 ---

would allow a cut in the repo rate. "People think that the German economy is over the worst and that we have seen the last official rate cut," said

Mr Elliot Dix, trader at Sig-net Bank in Richmond, Virginia, reaches a similar concinsion, from a different angle. He says that there is a 're-thinking of some of the issues in the

markat" underway. "People will be a little bit more sceptical about the dollar."

Mr Dix believes that with the dollar having flattered to deceive many times in recent years, there is no reason why it should not revert to its bad habits of old. "When people start getting too clear the dollar is strong, it is time to start looking at the negatives."

Tied in to all of this is the whole fate of the European single currency project. Mr Paul Chertkow, head of global currency research at UBS in London, says: "EMU is contingent on a steady recovery in the dollar against the D-Mark and low interest rates in Germany." He believes that the possibility of fading growth rates towards the end of the third quarter

could well re-ignite a bont of currency speculation. Ms Alison Cottrell, analyst at Pains Wabber in London, argues that "for the Bundes-bank, the major challenge of

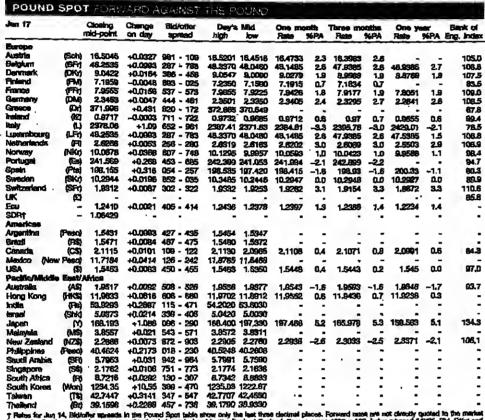
the coming months will be preventing the economic recovery from being aborted by an app reciating D-Mark."

She paints a picture of a cen-tral back forced to conduct policy against the backdrop of markets which, accustomed to recession, have become scared of growth. Ms Cottrell predicts that the Bundesbank will use the repo as a weapon to curb D-Mark strength when the market, unable to distinguish "strong" from "higher than expected" data, pushes bond yields and the D-Mark higher.

"A central bank still able to draw s distinction between the two concepts will be unwilling to jeopardise nascent and noninflationary recovery with interest rate hikes."

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CROSS	RATES	AND	DER	VATIV	ES													
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Belghern	(BFr)	100	18,74	18.49	4.860	2,015	4928	5,445	20.87	500.7	410.6	21:33	4.002	2.073	4.377	3.202	348,8	2.572
Dengmark.	(DKI)	53.36	10	8,799	2,593	1,075	2630	2.905	11.14	267.2	219,2	11,38	2136	1.106	2.336	1.709	186,0	1.372
Pywhyd .	(FFv)	80,85	11,37	10	2.947	1,222	5989	3.302	12.66	303.7	249.1	12.93	2.427	1.257	2.655	1,942	211,4	1.560
Sermeny	(DM)	20,58	3.856	3.393	1	0.474	1014	1.120	4.204	103.0	B4,52	4.388	0.823	0.426	0.901	0,659	71.73	0.529
kepuuru Puuleen	(2)	49.84	9.302	8.185	2.A13	. 1	2447	2,708	10.36	248.6	203,8	10.59	1.987 0.081	1,029	2.173	1,590	173.0 7.073	1,277
toly .	(1)	2.029	0.380	0.335	0.099	0.041	100.	0.110	0.423	10.16	8.335 75.45	3.917	0.735	0.381	0.804	0.568	64.03	0.472
Natherlands	(FQ)	18.37	3.442	3.029	0.893	0.370	905.2	1	3.893	239.9	198.B	10.22	1.915	0.993	2.097	1,534	167.0	1.232
Norwey	(MKI)	47.91	8.979	7_901	2.329	0.965	2361	2,809	10		82.04	4.259	0.799	0.414	0.874	0.639	69.62	0.614
Pottogal	(Es)	19.97	3.743	3,293	0.971	0.402	1200	1.087	4.168 5.081	100. 121.9	100.	5.192	0.974	0.505	1.068	0.780	84.86	0.626
Spaka	(Pta)	24.34	4,562	4.014	1.183	0.490	2311	2.563	9.786	234.8	192.6	10	1.877	0.972	2.052	1.501	163.5	1,206
Sweden	(SKr)	48.89	8,787	7.732 4.120	1.214	0.503	1231	1.360	5.215	125.1	102.6	5.329	1	0.516	1.094	0.800	87.11	0.643
Switzorland	(SFr)	24.99	4,683	7.956	2.345	0.872	2378	2.827	10.07	241.6	199.2	10.29	1.931	1	2.112	1.545	188.2	1,241
urc .	(2)	48.25 22.85	8.042 4.281	3.787	1.110	0.480	1126	1.244	4.788	1144	93.84	4.B72	0.914	0.473	1	0.732	79.64	0.586
Circumita	(CS)		5.852	5.150	1,518	0.629	1539	1.700	6.515	158.4	128.3	6.660	1.250	0.647	1.367	1	108.9	0.803
18	(39)	31.23 28.69	5.376	4.790	1,364	0.578	1414	1.662	5.987	143.8	117.8	6.118	1,148	0.595	1.256	0.819		0.73
Japan	W	38.88	7.288	6.411	1.890	0.783	1916	2117	8.114	194.7	159.7	8.292	1.556	0.800	1,702	1.245		1
cu		-	.,					- V- F		and Wome	to new 100							
											E YEN F	UTUNES	(IMM) Yen					
E D-MARK	Open 0.6564	Latest 0.6580	M 125,000 Change +0.0031	per DM High	h L	DW 5581	Est vol 9.097	Open Int. 31,478	Jun Jun	APAINES	Open 0.6165	Labest 0.9170	Change +0.0005	High 0.918	6 D.	.ow 6165	11,219	27,991
An Sop	Open 0.6584 0.6592	(MM) D Letest 0.6580 0.6616	Change +0.0031 +0.0033) per DM 14gi 0.856 3 0.865	h L	SW 5581 3582	9,097 46,984	Open Int. 31,478 56,003	Jun Sep	APAINES	Open 0.6165 0.9270	University 0.9170 0.9170 0.8289	Change +0.0005 +0.0007	0.918 0.931	6 0.0 0 0.0	.0W 6165 9270	11,219 35,634	27,991
tun Sep Dec	Open 0.6584 0.6582 0.6858	(IMM) D Latest 0.6580 0.6616 0.8651	Change +0.0031 +0.0035 +0.0025	0.856 0.666 0.666	65 0.6 30 0.6 33 0.6	DW 5581	Est vol 9.097	Open Int. 31,478	Jun Sep Dec	NPAINES	Open 0,6165 0,9270 0,9400	Labert 0.9170 0.9289 0.9410	Change +0.0005 +0.0007 +0.0008	0.918 0.93 0.943	6 0.0 0 0.0	.ow 6165	11,219	27,991
Am Sop Dec	Open 0.6584 0.6582 0.6858	(IMM) D Latest 0.6580 0.6616 0.8651	Change +0.0031 +0.0035 +0.0025	0.856 0.666 0.666	65 0.6 30 0.6 33 0.6	SW 5581 3582	9,097 46,984	Open Int. 31,478 56,003	Jun Sep Dec	PAINES (EPLDI	Open 0.6165 0.9270 0.9400	University 0.9170 0.8289 0.9410 Es (MMM)	Change +0.0005 +0.0007 +0.0009	0.918 0.931 0.931	6 0.1 0 0.1 10 0.1	5400	11,219 35,634 48	27,991 64,323 3,569
An Sep Dec R SWISS FI	Open 0.6584 0.6582 0.6858	(IMM) D Latest 0.6580 0.6616 0.8651	M 125,000 Change +0.0033 +0.0035 +0.0025 MM/g SFr 1	Der DM High 0.855 3 0.855 0 0.856 25,000 p	6 0.6 35 0.6 30 0.6 83 0.6 er SFt	S81 3581 3582 9651	Est vol 9.097 48,984 258	Open Int. 31,478 56,003 1,821	Jun Sep Dec	PAINES	Open 0.8185 0.9270 0.9400 2 PUTUR 1.5424	University 0.9170 0.8289 0.9410 Es (MM) 1.5430	Change +0.0005 +0.0007 +0.0009 £82,500 p	0.918 0.931 0.943 0.943	6 0.1 0 0.4 10 0.3	.0W 6165 6270 9400	11,219 \$5,634 48	27,991 64,323 3,569
An Sep Dec R SWISS FI	Open 0.8584 0.6592 0.6858	(IMM) D Letest 0.6580 0.6616 0.8651 URIES (I	M 125,000 Change +0.0033 +0.0035 +0.0025 MM) SFr 1 +0.0034 +0.0026	Der DM 1 High 1 0.855 3 0.555 0 0.555 25,000 p	h U 95 0.6 30 0.6 83 0.6 er SFt	5581 3582 9651 7980,	Est vol 9.097 48,984 258 3,000 25,206	Open Int. 31,478 56,003 1,821 16,540 34,661	Jun Sep Dec 11 51 Jun Sep	EPILON	Open 0.8185 0.9270 0.9400 2 PUTUR 1.5424 1.5372	0.9170 0.8289 0.9410 ES (MM) 1.5430 1.5416	Change +0.0005 +0.0009 +0.0009 £82,500 p +0.0090 +0.0076	0.918 0.933 0.943 er £	6 0.0 0 0.0 10 0.0	.0W 6165 6270 9400 5424 5872	11,219 \$5,634 48 2,573 10,884	27,991 84,323 3,569 32,460 40,690
Am Sep Dec M SIMBS FI	Open 0.8584 0.6592 0.6658 NAME FUT 0.7980	(MM) D Letest 0.8580 0.6616 0.8651 URLES (I	M 125,000 Change +0.0033 +0.0035 +0.0025 MM/g SFr 1	Der DM 1 High 1 0.855 3 0.555 0 0.555 25,000 p	h U 95 0.6 30 0.6 83 0.6 er SFt	S81 3581 3582 9651	Est vol 9.097 48,984 258	Open Int. 31,478 56,003 1,821	Jun Sep Dec	EPILON	Open 0.8185 0.9270 0.9400 2 PUTUR 1.5424	University 0.9170 0.8289 0.9410 Es (MM) 1.5430	Change +0.0005 +0.0007 +0.0009 £82,500 p	0.918 0.933 0.943 er £	6 0.0 0 0.0 10 0.0	.0W 6165 6270 9400	11,219 \$5,634 48	64,323
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E D-MANK An Sep Dec R SINNS FI An Sep Dec	Open 0.8584 0.6592 0.6658 AMC FUT 0.7980 0.6025 0.8058	(JMM) D Latest 0.6560 0.6616 0.5651 199828 (i 0.7963 0.8046 0.8113	M 125,000 Change +0.0031 +0.0035 +0.0025 MMg SFr 1 +0.0034 +0.0035	Der DM 1 High 1 0.855 3 0.555 0 0.555 25,000 p	h U 95 0.6 30 0.6 83 0.6 er SFt	5581 3582 9651 7980,	Est vol 9.097 48,984 258 3,000 25,206	Open Int. 31,478 56,003 1,821 16,540 34,661	Jun Sep Dec 11 51 Jun Sep	S EU	Open 0.8185 0.9270 0.9400 2 PUTUR 1.5424 1.5372	University 0.9170 0.9289 0.9410 0.9410 1.5430 1.5430 1.5420 AN CU	Change +0.0005 +0.0007 +0.0009 £62,500 p +0.0076 +0.0076	High 0.918 0.958 0.943 or £ 1.546 1.545 CY UI	1 L 6 0.0 0 0.0 0 0.0 0 0.0 1 L 1 L 1 L 1 L 1 L 1 L 1 L 1 L 1 L 1 L	5424 5372 5420 ATES	11,219 \$5,634 48 2,573 10,884 21	27,991 64,223 3,569 32,460 40,690 93
An Sep Dec Property of the Pro	Open 0,8584 0,6592 6,6658 AMC FUT 0,7980 0,8025 0,8058	(JMM) D Letest 0.6580 0.6616 0.6651 URBES (I 0.7963 0.8046 0.8113	M 125,000 Change +0.0031 +0.0032 +0.0025 MMn SFr 1 +0.0034 +0.0035	Der DM 1 High 1 0.855 3 0.555 0 0.555 25,000 p	h U 95 0.6 30 0.6 83 0.6 er SFt	5581 3582 9651 7980,	Est vol 9.097 48,984 258 3,000 25,206	Open Int. 31,478 56,003 1,821 16,540 34,661	Jun Sep Dec II 57 Jun Sep Dec	S EU	E YEN F Open 0.8165 0.8270 0.9400 2 FUTUR 1.5424 1.5372 1.5440 POPE Ecu o	Labest 0.9170 0.8289 0.9410 ES (MM) 1.5430 1.5416 1.5420 AN CU	Change +0.0005 +0.0007 +0.0009 £62,500 p +0.0076 +0.0076 FRREN	High 0.918 0.983 0.943 0.943 0.943 0.72 1.545 1.545 CY UI Change on day	2 1.5 8 1.5 10 0.3 10 0.3 10 1.5 11 Pt + ten	5424 5372 5420 5420 5420 5420	11,219 \$5,634 48 2,573 10,884 21	27,991 84,323 3,569 32,460 40,690 93
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E D-MANK An Sop Doc Swings Fi An Sop Doc UK (N) LONDON	Open 0.8584 0.5592 0.6658 0.6658 0.6058 0.0025 0.8058	(JMM) D Latest 0.6580 0.6618 0.8651 URRES (J 0.7983 0.8046 0.8113 EY RJ Over- night	M 125,000 Chenge +0.003 +0.003 +0.003 +0.003 +0.003 +0.003 ** ** ** ** ** ** ** ** ** ** ** ** *	Oper DM Higgi 0.856 3 0.656 9 0.666 25,000 p 4 0.807 5 0.817	h LL 95 0.6 80 0.6 83 0.6 er SFt 18 0.7 74 0.6 13 0.6	3581 3582 3651 7980 3018 3059	Est. vol. 9.097 45,984 258 3,000 25,205 95	Open Int. 31,478 55,003 1,821 16,540 34,651 1,051	Jun Sep Dac III Se	S EU	C YEN F Open 0.5165 0.9270 0.9400 2 FUTUR 1.5424 1.5372 1.5440 FOPE Ecu c ratus 2.152 1.62.4	Labest 0.9170 0.8289 0.9410 ES (MM) 1.5420 1.5416 1.5420 AN CU and 1.5420 1.542	Change +0.0005 +0.0007 +0.0008 £82.500 p +0.0070 +0.0070 +0.0070 FRRENI Rate mat Equ 14005 91.508 9.1508 9.1508	High 0.918 0.943 0.943 0.943 0.943 0.1.545 1.545 1.545 0.1.545 0.1.545 0.1.545 0.1.545 0.1.545	1	5424 5372 5420 5420 5420 5420 5420 5420 5420 542	11,219 35,634 48 2,573 10,894 21 % sprea v weaker 1,80 1,79 1,46	27,991 84,323 3,569 32,460 40,691 93
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Dec M. STANDE FR Jun Sep Dec	Open 0.8584 0.5582 6.6558 AMEC FUT 0.7890 0.8056 FUT 0.7890 FUT 0.7890 FUT 0.7890 FUT 0.8056 FUT 0.	(JMM) D Latest 0.6580 0.6618 0.8651 URRES (J 0.7983 0.8046 0.8113 EY RJ Over- night	M 125,000 Chenge +0.003 +0.003 +0.0023 MMg SF1 1 +0.003 +0.003 +0.003 T days notice	Oper DM High 0.656 3 0.656 3 0.656 25.000 p 4 0.807 5 0.817	10 0.6 10 0.6 10 0.6 10 0.7 10 0.7 11 0.6 12 51 51 51 51 51 51 51 51 51 51 51 51 51	7980 3581 3582 3582 3651 7980 3018 9056 9056	500 Sbx months 512 - 514 512 - 514	Open Int. 31,478 55,003 1,821 16,540 34,851 1,051 One year	Jun Sep Dec B. 57 Jun Sep Dec B. 57 Jun Sep Dec B. 58 Jun Sep Dec B. 58 Jun Sep Bedge Bedg	S EU 17 ertunde	Cychi F Open 0.6165 0.9270 0.9400 2 FUTUR 1.5424 1.5372 1.5440 FOPE Ecu of rates 2.152 1.624 38.39 0.7822 1.930	Labest 0.9170 0.9289 0.9410 1.5420 1.5416 1.5420 1.9416 1.5420 1.9416 1.5420 1.9416 1.9416 1.9420 1.9416 1.9420 1.9416 1.9420 1.9416 1.9420 1.9416 1.9420 1.9416 1.9420 1.	Change +0.0005 +0.0007 +0.0009 £82,500 p +0.0070 +0.0070 FRREN Rate mat Equ 1005 19,006 9,006 9,1080 9,1080	High 0.918 0.931 0.943 or £ 1.545 1.	22 1.58 1.50 1.41 P. + + + + + + + + + + + + + + + + + +	5424 5372 5420 5420 5420 5420 5420 5420 5420 542	11,219 \$5,634 48 2,573 10,894 21 % spread v weeker 1,80 1,79 1,46 1,29 1,19	27,99 84,32 3,566 32,46 40,59 83 6 DN 8 Inc

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Jun Sep Dec	1.5424 1.5372 1.5440	1,5430 1,5416 1,5420	+0.0090 +0.0076 +0.0070	1.545	2 1.5424 8 1.5372 0 1.5420	2,578 10,894 21	32,460 40,690 93
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Ireland	0.792214	0.79	1798 -	0.002144	-0.05	1.29	0
Gormany	1.91007		4474	+0.00075		1.19 1.19	9
Austria Portugui	13.4383 195.792		6.912	+0.043		33.0	
Denmark	7_26580	7.5	6624	+0.00186	1,15	0.09	-8
France	8,40606	6.4	18501	+0.00086	1.23	0.00	-10
NON ERM I	MEMBERS 202,867	7 90	3.335	+0.04	3.57	-2.26	_
ttely	2106.1		43.83	+0.23	-7.70	9.69	-
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PHILAD	ELPHEA SE			1,250 (0	nts per pour		
Strike		CAL				PUTS	AUG
Price	Jun 2-51	Jt. 2.6		Aug 2.98	Jun	-kd 0.24	0.48
1.510 1.520	1.55	. 1,		2.32	-	0,40	0.77
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	Ореп	Lettest	Change			Est. vol	Open Int.
Jun.	84.42	94,41	_	94,4		45,533	290,319
Sep	94.14	94,13		84,1		68,636	395,832 432,703
Dec	93.79	93,78	-0,01	93.7	8 93.77	199,485	432,103
E US THE	ASURY BOL	. PUTUR	MES (IMM	\$1m pe	100%		
Jun	84,92	94.91	-0.01	94.8		187	4,274
Sep	94.65	94.65	-	94.6		293 126	5,888 1,606
Dec		94.37	-0.01	94.3	94.37	120	1,000
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This announcement is neither an offer to purchase nor a solicitation of an offer to sell these securities. The Offer is made solely by the Offer to Purchase dated June 17, 1996.

U.S. \$1,000,000,000

Notice of Offer to Purchase for Cash

by

CEMEX, S.A. de C.V.

81/2% Notes due June 10, 1998

at a purchase price determined in the manner described in the Offer to Purchase by reference to a fixed spread of 2.5% over the yield to maturity of the United States Treasury 6% Notes due May 31, 1998 as reported in the Federal Reserve Bank of New York "Composite 3:30 P.M. Quotations For U.S. Government Securities" on July 11, 1996, plus accrued and unpaid interest to (but excluding) the date of payment of such purchase price.

> THE OFFER EXPIRES AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON JULY 15, 1996, UNLESS EXTENDED OR EARLIER TERMINATED.

Cernex, S.A. de C.V. (the "Company") has offered to purchase for cash any and all of the Company's 81/1% Notes due June 10, 1998 (the "Notes"), upon the terms and subject to the conditions set forth in its Offer to Purchase dated June 17, 1996 (the

"Offer to Purchase") and in the related Letter of Transmittal (which together constitute the "Offer"). The Purchase Price for the Notes will be calculated as described in the Offer to Purchase in a manner intended to result in a yield to June 10, 1998 (the maturity dete of the Notes), assuming the Notes will be repaid in full on that date at 100% of their principal amount plus accrued interest to (but excluding) the maturity date, equal to the sum of (a) the yield to maturity of the United States Treasury 6% Notes due May 31, 1998 (the "Reference Notes") as calculated in accordance with standard market practice, based on the bid price for such Reference Notes as reported in the Federal Reserve Bank of New York "Composite 3:30 p.m. Quotations for U.S. Govarment Securities" on July 11, 1996 (the second business day before the currently exhibited exprinting of the Office), and (b) a fixed expressed of 3:5% (i.e., 250 basis points). scheduled expiration of the Offer), and (b) a fixed spread of 2.5% (i.e., 250 basis points).

The Offer is conditioned upon, among other things, the receipt by the Company of gross proceeds in an amount at least equal to the aggregate principal amount of Notes tendered and not withdrawn pursuant to the Offer from the issuance and sale of one or more series of new debt securities by the Company.

The Purchase Price will be paid in immediately available funds on the fourth business day after expiration of the Offer (or as soon as possible thereafter) and after satisfaction or waiver of all conditions to this Offer (the "Settlement Date"). In addition, the Company will pay accrued and unpaid interest to (but excluding) the Settlement Date. Subject to certain exceptions, the Company will pay certain additional amounts in respect of any Mexican withholding taxes imposed in respect of payments made to tendering holders. The terms of the Offer are more fully described in the Offer to Purchase.

Holders may, prior to the time at which the Purchase Price for the Notes is calculated, obtain hypothetical quotes of the Purchase Price for the Notes, and may, after such time, obtain the actual Purchase Price, by contacting Goldman, Sachs & Co. or Citicorp Securities, Inc. at their respective telephone numbers listed below. In addition, information regarding the Offer will be gvallable on MCM "CORPORATEWATCH" Service on Telerate page 41998.

The Information Agent for this Offer is:

D.F. King & Co., Inc.

77 Water Street, 20th Floor New York, New York 10005 Toil-Free (800) 347-4750

Goldman, Sachs & Co.

The Dealer Managers for the Offer are: Citicorp Securities, Inc.

Liability Management Group 85 Broad Street, 26th Floor New York, New York 10004 Toll-Free (800) 828-3182

CBFG Syndicate Desk 399 Park Avenue, 7th Floor New York, New York 10043 Call Collect (212) 291-0126/7

資本者大二年時日の名の父の名が子の名を スカガー あっちょうかん あっちのます

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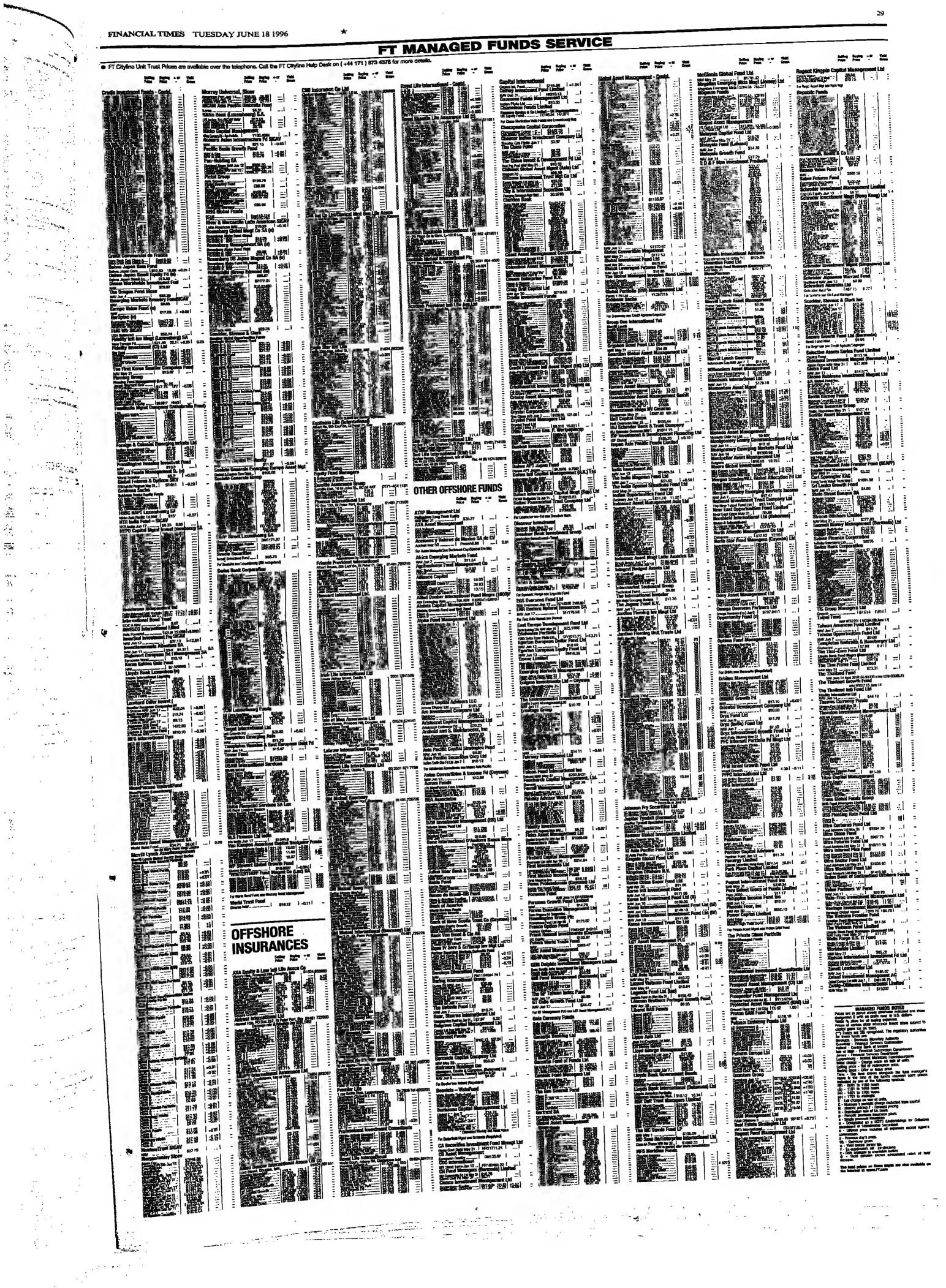
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MARKET REPORT

Utilities bid hint helps revive flagging equities

By Steve Thompson, UK Stock Market Editor

It is quiet, it is hot, and most of us would rather be sitting in the garden with a glass of iced tea, or something stronger, than trying to drum up business in the stock market," was the view of one frustrated senior dealer yesterday.

The view summed up a disappointing day in the market, which nade a brave effort to gain ground at the outset, only to run into small pockets of selling pressure, before dging higher again towards the close. The late gain came as rumours of another bid in the utilities sector began to circulate.

Talk suggested that an increased offer for Southern Water from Scottish Power was about to materialise, possibly as early as this morning, but certainly within the next couple of days.

Scottish Power's original offer for Southern Water was trumped by a higher bid from Southern Electric; specialists insist that both bidders are determined to be successful and. if necessary, would pay over the

At the end of the session the FT-SE 100 index showed a 7.9 gain at 3,761.5, but pressure on the second liners, which lacked support for much of the day, saw the FT-SE Mid 250 index soften 2.4 to 4,462.2.

London received no help from a lethargic Wall Street, which opened slightly easier, rallied and then slipped away again just after European markets closed for the day.

There was no important economic data to give a lead to either Wall Street or London, but dealers said both markets could liven up later in the week. Wednesday sees the expiry of June stock options, while the Footsie future and index options expire on Friday.

This morning brings the publication of the UK public sector borrowing requirement for May, and in the US details of housing starts in May and non-farm productivity for the first quarter.

May, expected tomorrow, will be closely watched by the market. Retail shares have performed exceptionally well recently on increasing optimism that cuts in taxes and interest rates over recent months are making themselves felt in high

While a big rise in sales could give a fillip to retail stocks, the overall market might take fright at the inflationary consequences of a consumer spending spree.

street sales.

year looked to be slightly

ahead of the consensus.
But analysts came away

from their meeting with the

menagement in a cautious

mood. There were no down-

grades but, equally, few visible

signs of profits upgrades.

"The two-way pull that has

dogged British Steel for more

than two years refuses to go away," said one leading dealer.

The shares were the day's sec-

with 14m traded. They closed

BAe ran up a gain of 17 st one stage, following specula-

tion about contracts in the

Sunday press, only to close at 987p, np 7. Siebe, which flew

analysts to the US yesterday to

view its Foxboro controls operations, added 19 at 907p.

A warning of lower first-half

profits left Wagon Industrial

nearly 7 per cent cheaper at

little changed at 178p.

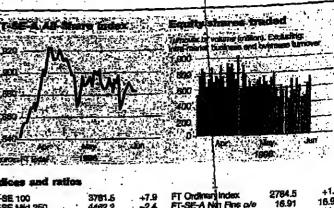
ond most active Footsle stock

The early rise in the market was helped by a firm opening in international bonds, with German bunds lifted by the election news from Russia, where Mr Boris Yelisin & placing.

a small lead. Bunds gave a ragged performance at the end of last week, when markets showed unease at the possibility of a return of Communist rule in Russia.

Late in the session, turnover was given a heaty push by a streahle two-way programme trade, thought to have been executed by UBS. At the 6pm reading turnover was 712.2m shares:

That figure was boosted by a placing of 20m shares in 31 by Barclays Bank, hard on the heeks of the sale by NatWest of 104m shares last Friday. Customer husiness on Friday. was a herty 2241hn, inflated by the



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Double lift for Barclays

Banking group Barclays was the feature in an otherwise dull banking sector, as recommendations from two leading brokers boosted the day's trading. Only after the market close did Barclays confirm the reduction of its holding in 3i

Shares in Barclays closed 6 ahead at 782p, after trade of 3.7m, as both Cazenove and Kleinwort Benson issued strong buy circulars and upgraded profits expectations for one of the UK's biggest financial institutions.

Last week, HSBC James Capel made a similar recommendation following a meeting with Barclays.

In a detailed note to investors, the banks team at Kleinwort Benson concluded; Rarely has a bank changed so dramatically as Barclays. It has transformed its attitude towards capital and towards lending money. These are changes which are all in shareholders' long term interests. With the group still valued as a bad old bank, the shares offer over 25 per cent relative

Kleinwort upgraded profits expectations for the current year by 6 per cent to £2.114bn and the following year's figure was raised by 10 per cent to

Just after the session close, Barclays confirmed that it had

ESTET

booked a £61m profit from the sale of 20m shares (around 3.4 per cent) in venture capital company 3i. The trade was carried out at 450p a share (exdividend) and came just days after National Westminster Bank sold its 17.7 per cent holding. Barclays is retaining a 2.1 per cent holding in 31, which declined 9 to 448p in

Southern Water up

Bid fever returned to the utilitiss yesterday as word went round the market that Scottish Power was about to re-enter the contest for

Shares in the Scottish generator tumbled 11 to 304p, the day's worst Footsie performer. in trade of 3.1m. The market gossip suggested that Scottish Power is about to table an offer that would top that already agreed between Southern Electric and Southern Water.

One market specialist said: "One has to realise that Scottish Power is determined to win control of Southern Water and I think they are prepared

Shares in Southern Water gained 10 to 993p on the speculation, while Southern Electric receded 9 to 676p. In the rest of the sector, the

poor sentiment following the weekend's Manchester bombing fell on Northern Ireland Electricity. Shares in the group eakened 8 to 419p.

Glaxo firm

A combination of a favourable press report and a number of broker recommendations helped boost pharmaceuticals

group Glaxo Wellcome, driving were up to City expectations 348p with a drop of 26. the shares sharply forward. and the dividend at 10p for the The integrated oil At the close they showed a gain of 20% at 887%p, with 8.2m

shares traded. Sentiment was mainly boosted by a report that appeared in US investment publication Barron's which highlighted the potential of Glaxo's new anti-Aids drug

SGST reiterated its positive stance on the stock following the article, as did several other

A couple of engineering stocks gave traders a switch-back ride. British Steel surged initially

to 184p on the back of top-ofthe range results, but fell back significantly after a post-results meeting with analysts. British Aerospace followed a similar trading pattern. BS's annual results, widely

acknowledged to reflect the top of the current profits cycle,

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Filees and falls' Total Pines Total Falls Same 492 700 1,529 Total contract Cafe Puts 95 34 June 17"Date based on Equity shares listed on the Lond

The integrated oil majors moved in opposite directions, with BP staying out of favour but Shell generating modest buying interest. Crude oil prices managed a modest rebound after a recent weak run, and NatWest Securities helped to stir the pot with a note advising clients to switch

their Shell holdings. "Relative to Royal Dutch, Shell Transport stands at a discount for all classes of investors. There is at least 5 per cent upside for the Shell price, relative to Royal Dutch." argued NatWest. Shell added 4% at 229%p and BP slipped 3%

Several insurance issues underperformed the market yesterday. Specialiste enggested there had been active selling of several stocks to take up holdings in Sur Life, which returns to the mar ket on Monday.

Prudential stayed at 418p in trade of 2.8m, Legal & General lost 5 to 677p and Commercia

Househulders provided one of the day's perkier performances, with Wimpey topping the FT-SE Mid 250 rankings and Bryant and Barratt Devel opments not far behind. A recent note from Merri

Lynch highlighted the politica risks for inflation and con cluded that, in the run-up to possible autumn election, the sector was worth more than second look. It upgraded both Wimpey and Barratt, Wimper gained 6 to 147p, Barratt 4 to 263p and Bryant 2 to 121p.

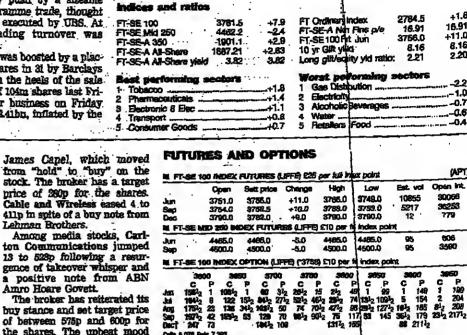
Klectronics giant GEC sho forward in the best volume since mid-April. The consensus among analysis was that the stock was bouncing off the bottom of its recent trading range ahead of next month's result statement. The shares rose 8% to 3600 in 8.5m traded. Mobile phones group Voda-

from "hold" to "buy" on the stock. The broker has a target price of 200p for the shares. Cable and Wireless eased 4 to 411p in spite of a buy note from Lehman Brothers.

Among media stocks, Carlton Communications jumped 13 to 528p following a resur-gence of takeover whisper and positive note from ABN Amro Hoare Govett.

The broker has reiterated its buy stance and set target price of between 575p and 600p for the shares. The upbeat mood was further enlivened by talk of a possible takeover approach from Bertelsmann, the German media glant

MARKET REPORTERS:



IN EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 or full index point

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Additional information on the FT-SE Actuaries Share Indices is published in Saturday Issues.

The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries, and the Institute of Actuaries. "FT-SE" and "Footale" are trademarks of the London Stock Exchange and the Pranticel Times Limited and are used by FT-SE International Limited under Reence, Auditor, The Wild Company," † Sector P/S rutice greater than 80 and not covers greater than 30 are not shown... † Values are negative.

STET - Societa Figurezlaria Telefonica p.a.

Entered under No. 286/33 in the Company Register, Regular Section, of the Court of Turin - Tax LD. No. 0047 (8500)a

STOCKHOLDERS MEETING The stockholders of STET met in Turin on June 6, 1996 under the chairmanship of Biagio Agues.

The Ordinary Meeting approved the financial stotements of STET S.p.A. at December 31, 1995, which show are income of 1.104 billion lire, up 23.5% over 1994. This allowed the distribution of 715.5 billion lire to the stockholders, a gain of 20 lire per share and 105 billion lire overall. Consequently, the dividend per share, before tax withholdings, increased to 150 lire for the savings shares and 130 live for the ordinary shares. Net invested capital reached 13,281 billion live, with 93.8% of the coverage provided by stockholders' equity.

The consolidated financial statements of the Group show net income of 2,452 billion lire (+29%). STET's interest in the consolidated net income amounted to 1,459 billion lire (+25%), in particular, revenues rose 10.7% to 37,373 billion lire and net boxrowings decreased by 3,485 billion lire to 15,412 billion lire, with the debt ratio falling from 41% to 35%. Net financial expense also declined from 4.9% to 4% of revenues. Total capital expenditures were 9,072 billion lire, while cash flow (not income plus depreciation and amortization) reached 12,801 billion lire. A total of 8,359 billion lire was invested in fixed assets to expand and enhance the network and improve the quality and range of STET's telecommunications services, which are now on a comparable level with those of the most industrialized nations. Over 1,500 billioo lire was used to fund foreign acquisitions, which will strengthen the Group's international presence. The Group reported significantly higher consolidated foreign revenues, which, when international traffic is included, totaled 4,400 billion lire, compared with 3,800 billion lire in 1994.

The Stockholders' Meeting set at 15 the number of Directors on the Board for the 1996, 1997 and 1998 fiscal years and elected the following Directors: Biaglo AGNES, Silvano ALLEVI, Fabrizio ANTONINI, Ruggero BOSCU, Vincenzo DETTORI, Ezio Francesco LEPIDI, Tommaso Vincenzo MILANESE, Alessandro OVI, Ernesto PASCALE, Sergio PIVATO, Maurizio PRATO, Pietro RASTELLI, Michele SAVARESE, Carlo TEDESCHINI LALLI and Gianfranco ZANDA.

The Meeting also elected for the same fiscal years the following Statutory Auditors: Pietro ADONNINO, Chairman; Giancarlo BIACCA, Giulio BURATTI, Aldo DE CHIARA and Gianfrancesco VAGNETTI, Auditors; Isabella INNOCENZI and Paolo LISI, Alternates. The Extraordinary Meeting approved a reduction of the reserve for inflation adjustments under Law No. 413/1991 in order to pay the corporate net worth tax for the 1995 fiscal year. At a meeting held at the end of the Stockholders' Meeting, the Board of Directors. elected Bingio AGNES Chairman, Michele SAVARESE Deputy Chairman and Ernesto PASCALE Chief Executive Officer. Filippo GAGLIANO and Enrico GRAZIANI were appointed General Managers.

DIVIDEND PAYMENT

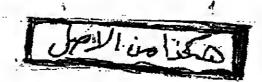
The dividend for the 1995 fiscal year, which, before tax withholdings, amounts to 150 lire for each savings share and 130 lire for each ordinary share, will be payable as from June 24, 1996 at the Company's offices at 28 Via Bertola, Turin, and 41 Corso d'Italia, Rome, at the customary authorized banks and through Monte Titoli S.p.A. for the shares which it manages. Payment for both classes of shares will take place against presentation of coupon No. 7.

The holder of ADRs listed on the New York Stock Exchange representing STET ordinary and savings shares should contact Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, NY 10260, which is the issuer of the abovementioned ADRs.

The Financial Times plans to publish a Survey on

Time McGorman on +44 171 873 4816, Fax: +44 171 873 3595 or your usual Financial Times representative.

on Tuesday, July 9.



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	Argentina Angentina General(29/12/77) Asstratin All Drimmer(1/1/80) Austratin All Drimmer(1/1/80) Austratin All Drimmer(1/1/80) Austratin Credit Aiden(20/12/84) Traded index(27/81) Bedglorn BEJ20(1//81) Brenze BOPER(28/12/83) Commission Ministratina Mi	2075 22 10752 107 380.10 38 1104.04 1111 1783.10 176 35 50 36 50 36 24 40 52 31 30 12 2010.31 20 2010.31 20 2011.70 12 2011.70 12 20	14 13 30 17763.34 1 62 2200.6 7.4 1019.1 109 385.96 120.93 1.55 1761.87 19.0 55038.0 1.55 5146.21 1.019 5069.80 1.256 2474.96 17.14 5508.73 13.32 403.52 13.32 403.52 13.32 403.52 13.32 403.52 13.32 403.52 13.33 403.52 13.34 403.52 13.35 904.13 144.9.8 11.78 2126.2 103.32 904.13 144.9.8 11.78 2126.2 103.32 904.13 104.93 10866.0 104.33 3965.4 105.0 105.6 106.33 3965.4 105.0 657 1108.0 1114	High 5881.95 205 2528.08 254 1718.40 85 2939.9 315 1462.51 285 57108.09 285 57108.09 285 57108.09 285 5720.96 225 5720.96 225 2755.55 275 5894.33 871 447.87 285 247.89 96 2449.78 304 2 908.87 215 2 11504.99 167 4 4057.29 177 4 4057.20 177	1998 - Low 1993 - 2197.40 11/3 1004.70 16/1 1993 - 271 1004.70 16/1 1992.27 271 1574.90 27	Jupan Triph(VISB) 2nd Socian(VISB) Mahayaka ICLE Comp.(44/86) Menteo PCRON 1978 Helitantiand CSS TSIMBOREA SSIEND 83 How Zealand Cap. 40(17/80) Horwity Otto SE(no)(27/85) Pullipalane Hente Comp.(21/85) Portugal BA. 30(41/85) Portugal BA. 30(41/85) Sociah Africa JSE 8nd(28/878) Sociah Africa JSE 8nd(28/878) Sociah Koree Horschoff (47/40) Spalin Hariff SSIEN 12/255 Sweltzerfand Swiss Sk Ind(28/878) Sociah Marien Triphiand Swiss Sk Ind(28/878) Sociah SC Sociah Ind(17/25) SG Gesent(14/87) Turkery Hariff Crep.(4 in 18/4777 Turkery Hariff Crep.(4 in 18/477 Turkery Har	100 1 170 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	8 1121.52 1189.54 8 1121.52 1189.54 8 1121.52 1189.54 17 64.5 622.90 14 362.3 387.81 90 202.53 202.65 102 1462.77 1469.77 132 200.47 2069.77 134 15 152.0 203.64 135 575.90 810.33 137 137 178.13 138 152.5 203.64 138 203.6	25 1882 30A 983 225 2754 126 587 126 587 126 1882 127 127 128 1 145 18	Low Deep Low India 142 1343 House 1443 House	ar Jones article ar	Jan Jon 14 13 14 13 15 16 16 16 16 16 16 16 16 16 16 16 16 16	5 5668.29 5 5 101.24 11 2223.26 1 10 206.29 20 688.04 21 799.31 21 688.03 22 688.04 21 799.31 21 888.03 23 587.55 565 1235.47 2.19 3.41 12 1.87 18.65 1.887	(22/5) (1/4/2	## ## ## ## ## ## ## ## ## ## ## ## ##	41,22 Annual Ann
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Weak semis extend tech stocks tumble

Technology shares were lower ssion, while the rest of the market traded just below Friday's closing levels as activity was muted across US financial markets, writes Lisa Bransten in New York.

At 1 pm, the Dow Jones Industrial Average was off 7.75 at 5,841.70, the Standard & Poor's 500 had dipped 1.42 to 664.48 and the American Stock Exchange composite had lost 3.70 at 590.15. NYSE volume came to 156m shares.

Trading on the bond and currency markets was slow at the beginning of a week where traders expected little in the way of important economic

The benchmark 30-year Trea aury traded slightly higher than its price late on Friday to yield 7.084 per cent, while the dollar posted a modest loss against the Japanese yen and

The Nasdaq composite, which is about 40 per cent com-prised of technology shares, continued the tumble it took on Friday amid nervousness in the semiconductor sector. In early afternoon trading, the Nasdaq had tacked a fall of 4.34 on to the 12.43 it shed on Fri-

Johannesburg was closed for a public holiday

day, bringing the index to 1,208.84. The Pacific Stock Exchange technology index was 0.5 per cent weaker and the Morgan Stanley high-tech 35 showed a fall of 0.7 per cent. Weaker semiconductor issues included Intel, which

Texas Instruments, \$% lower at \$52%.

Elsewhere, Kansas City Power & Light rose \$1% or 5 per cent to \$27% on news that Western Resources had raised its hostile bid for the utility to \$31 a share from \$28 a share. Shares in Utilicorp, which was negotiating a friendly merger with the Kansas utility, relinouished \$1/4 at \$261/4.

Pfizer and Glavo rose on unfounded speculation that the two companies could merge. Shares of Pfizer added \$1 at \$76% and American Depositary Receipts of Glaxo Wellcome put on \$% at \$27%.

Household International rose \$1% to \$72% on news that it was purchasing a credit card portfolio from the Bank of New York. Household International said that it would acquire a credit card tied to the AFL-CIO labour union representing 2.2m cards with about \$3.4bn in outstanding transactions. Bank of New York rose \$1/2 to \$53%.

Toronto stocks traded flat at midsession, unable to capital ise on a better tone in gold shares. The TSE-300 composite index was 2.91 higher by noon at 5,033.10, in weak volume of just 29.9m shares.

Among individual stocks, Loewen added C\$1.20 at C\$40.80 on news that it was buying a 20 per cent stake in Prime Succession, the largest privately held funeral home operator in the US, with an option to buy all of Prime after four years. Bre-X Minerals, the gold prospector, jumped C\$1.10 to C\$23.95 on claims of a 30m-ounce discovery in Indonesia.

Brazil advances 1.5%

São Paulo moved 1.5 per cent higher in midsession trade, although analysts noted that price rises on options settlements were tempered by concern that the government would slow its drive for constitutional reforms. The Boyespa index rose 868.22 to 57.217.

MEXICO CITY made a spirited attempt to move ahead in early trade, after the steady losses of last week, but by mid-

session the market was again
in negative territory with tha
IPC index down 4.66 at 3.170.22.
Abaco, the broker, argued
yesterday that the market cor-
rection was due more to ner-
vousness about the peso than
to fundamentals. Abaco added
that inflation looked fairly
well under control, economic
growth was picking up and
earnings reports were expected
to be strong.

Index Index

138.07 158.99
132.53 132.66
146.34 166.66
144.91 132.37
109.01 125.58
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	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	-1.26	+2.81	+9.19	+17.58	+11.60	+10.49
Belgium	+1,11	+1.37	+21.48	+8.39	+2.84	+1.82
Denmark	+0.35	+0.84	+14.08	+9.26	44.15	+3.11
Finland	+0.05	+1.21	-1.86	+11,56	+4.44	+3.39
France	+0.20	-0.91	+13.18	+15.36	.+10.31	+9.20
Germany	-0.24	+0.34	+17.09	+10.55	+4.95	+3.91
freiand	+1.63	+2.69	+29.17	+14.53	+14.13	+12.99
Italy	-0.89	-4.38	+4.44	+6.88	+10.76	+0.65
Netherlands	-0.76	+1.01	+29.81	+15.37	+9.52	+8.43
Norway	+1.43	+3.87	+19.53	+14.17	+11.64	+10.52
Spain	+2.41	+3.49	+30.62	+16.74	+11.14	+10.03
Sweden	-0.90	-0.01	+25.48	+14.67	+14.83	+13.68
Switzerland	+1.06	-0.01	+28.57	+8.55	+0.87	-0.14
UK	+1.18	-1.07	+12.48	+2.45	+2.45	+1.42
EUROPE	+0.51	-0.34	+17.01	+8.58	+5.61	+4.56
Australia	-0.18	-2.02	+12.55	-0.67	+6.73	+5.67
Hong Kong	-2.69	-0.18	+18.17	+9.66	+10.60	+9.50
Japan	+2,40	+1.37	+40.86	+6.82	+2.37	+1.35
Maleyela	-0.83	-2.41	+3.93	+11.66	+14.78	+13.63
New Zeeland	+2.15	-0.77	-3.97	-4.70	-0.83	-1.82
Singapora	-1.28	+0.51	+6.10	+1.88	+3.31	+2.28
Canada	-2.31	-3.41	+10.79	+7.12	+7.84	+6.86
USA	-1.05	-0.48	+23.86	+8.04	+9.13	+8.04
Mexico	-2.40	-2.50	+58.16	+16.97	+18.79	+17.61
South Africa	-0.43	+0.80	+25.87	+11.43	-5.77	-6.71
WORLD INDEX	+0.09	-0.10	+25,20	+7.85	+8.47	+5.40

FT/S&P ACTUARIES WORLD INDICES

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Seein (37) .

USA (627) -

Bumpy day for airlines, Lufthansa loses height

Airline atocks had a bumpy passage. Lufthansa had the worst of it, falling DM10.50 to DM224_20 on a Suddeutsche Zeitung report that the German sirline had made an operating loss of DM200m in the first five months of 1996, because of poor sales and

In the Netherlands, KLM offered a new cut price flight to London's Heathrow, but its Martinair associate talked about pressure on cargo rates and a poor start to the summer tour market. KLM shares fell FL 1.50 to FL 55.20. Swissair lost SFr15 at SFr1,250 after news of its plans to boost collaboration in response to the slliance between BA and American Airlines.

FRANKFURT balanced the weaker dollar against the Russian election result and came out with the Dax index 4.81 higher at an Ibis-indicated 2.549.81. Turnover fell again, from DM8.8hn to DM7.2hn.

Dollar-associated losses included Continental, the tyremaker, off 54 pfgs at DM24.60, DM5.60 at DM535. But Volkswagen, which fell DM6.60 to DM555.80, had its own malaise: the carmaker announced a recall of 950,000 cars worldwide, mainly Golf and Jetta models, for the repair of engine PARIS consolidated. TurnShare price & Index (rebe

over was moderate at FFr4hn

and the CAC-40 index rose just 1.26 to 2,113.04. A measure of the day was its star performer, the catering group Sodexho, which is not in the 40-share index. It rose

FRY2 295 on its forecast of an

effective 30 per cent increase in

net profits for 1995/96. ZURICH's cyclicals attracted more attention than banks and insurers as the SMI index fin-ished 5.2 higher at 3,600.1. ABB, leading a consortium to build a \$5bn Malaysian dam,

rose SFr13 to SFr1,532. SMH. the watchmaker, extended recent gains with a rise of SEC10 to SEr885 and Elektrowatt added SFr8 at SFr444 in a sharp losses it suffered after its first-half report.

times at SFr5, on continuing uncertainty about whether it. will be forced to seek protection from creditors by the end of this month.

Globus fell SFr22 to SFr750 on the pessimistic outlook given at its annual meeting and on negative sentiment for the retail sector caused by the interdiscount problem. BRUSSELS turned its atten-

tion to the steel sector. Clabecq leapt BFr69, or 21.3 per cent, to BF7324, off a high of BFr350, on a BFr1.5bn rescue plan that could save it from bankruptcy. Arbed, the Luxembourg steel maker, which posted a strong rise on Friday before the datails of the Clabecq plan were announced, gave up BFr10 to BFr3,780.

The broadar market was pixed, with the Bel-20 index finishing 0.46 weaker at Petrofina, the oil and ga

group, and Kredietbank, both the stars of Friday's session, continued to benefit from a reweighting of the Bel-20 index, which takes effect in September. Petrofina was up BFr100 at BFr9,900 and KB advanced BFr250 to BFr9.990. AMSTERDAM featured a gain of Fl 3.80 to Fl 168 in DSM

on the group's expansion in

Interdiscount lost 50 cen-THE EUROPEAN SERIES

Housey changes = Open -- 10.30 - 7000 12.00 13.00 -- 14.00 - 15.00 Close. FT-SE Europeack 100° 1861,66 1861,39 1690,70 1680,03 1680,43 1681,52 1661,50 1681,90 No. 17 No. 10 Jun 14 Jun 18 Jun 12 1694,47 1733,88 1691.45 1731.25 FT-SE Barotrack 200 1722.32 Base value 1000 (26/18/96); Highling: 100 - 16/2/22; 200 - 1725.19 Londiny: 100 : 16/70.65 200 - 1779.21. † Paris

volatile than DSM's main business of petrochemicals and

The AEX index moved ahead 2.77 to 561.07. Ahold, the big retailer currently making an issue of partly convertible preference shares, rose Fi 5.20 to F194.50 in relatively light volume of 660,000 shares.

HRLSINKI saw Nokia A fall FM2.50 to FM18T after Friday's US tech stocks self-off. Forest-ries eased ahead of tertial reports today; and Amer, the sporting goods group, dropped FM4.80 to FM66.20 in a further reaction to its four-monthly

results The Hex index fell 18.05 to 2,010.31. However, the pharmaceuticals group Orion climbed further on brisk foreign demand after a good tertial

report last Wednesday.

The shares put on FM6 at initiated coverage of the stock with a huy recommendation. saying it was trading et a 42

LISBON featured a 5.7 per cent rise in the state controlled Banco de Fomento e Exterior, on indications that the Amorim group's Banco Nacional de Credito Imobiliario would join the bidding at its privatisation. BFE added Es121 at a record Es2,230 as the BVL-30 index

TEL AVIV rallied 2.5 per cent in a display of approval for both candidates believed to be in the running for the post of finance minister. The Mishtanim index rose 5.07 to 205.37. Suggestions emerged on Sun-day that the job would go to Mr Jacob Frenkel, the central bank governor, regarded as a staunch inflation fighter. Yesterday, however, Mr Dan Meridor, a former justice minister seen as a supporter of free mar-kets, also appeared to have entered the fray. "Either way,

edged 0.70 down to 1.914.04.

analyst. Mofet, the venture capital fund, jumped 9.8 per cent to

the market likes it." said one

Wall Street offering of Orchit Communications, in which it owns 4.3 per cent, and on rumours about a possible sale of Scorpio Communications, in which Mofet holds 6 per cent.

WARSAW did not appreciate the way Rafako, the boilermaker, cut its new issue price from 24 zlotys to 14, and the existing shares dropped by 1.80 to 16.70. However, it did like a Merrill Lynch report on Agros, the food trader and producer, placing it among best buys in European emerging markets. Agros climbed 6.50 zlotys or 9.6 per cent to 74.50 as the Wig

index rose 104.4 to 12,944.6. BUDAPEST hit a new high but traders said that the low turnover reflected a continued wait and see attitude over tha Russian elections. The Bux index rose 24.30 to 3,156.60.

MOSCOW's key indices soared by between 8.1 and 15.8 per cent to new all-time highs, and the highest flyer, the RTS-21 index, put on 23.27 at 170.13 as it welcomed President Boris Yeltsin's lead over his Communist rival in Sunday's presidential elections. However, traders said West-

ern investors were reluctant to come in at this stage, and that rises were largely speculative, in the most liquid shares.

Sumitomo limit-down, Nikkei only marginally lower

Tokyo

The Sumitomo debacle had a limited effect on the hroad market. Shares in the trading company fell sharply but the Nikkei average closed only marginally lower, writes Emilio

Terazono in Tokyo. The 225 index eased by 44.01, closing at the day's low of 22,245.38, as earlier gains were wiped out by profit-taking initiated by domestic institutions. It had seen a day's high of 32,519,39 in the morning on purchases by domestic and foreign investors, but traders said that selling overwhelmed buying in the afternoon session as the index breached its near

term target of 22,500. Volume totalled 411m shares. against Friday's 1bn, which was supported by technical trading linked to futures settle-ments. The Topix index of all first section stocks slipped 7.89 to 1,692.21 and the Nikkei 300 by 2.10 to 313.61, but rises narrowly led declines by 540 to 507, with 183 issues unchanged. In London the ISE/Nikkei 50 index gained 3.40 at 1.499.66. Dealing resumed in Sumi-

tomo, which fell by its daily limit of Y200, or 16.5 per cent, to Y1,010. The TSE suspended trading on Friday following media reports, and the trading house confessed that it had incurred losses of \$1.8bn due to illicit copper trading by its head commodity trader.

Other trading houses were also lower, with Itochu down Y12 to Y752 and Mitsui losing Y13 to Y971.

The plunge in copper prices hit mining shares, the sector declining 0.9 per cent. Sumi-tomo Metal Mining, the mining company in the Sumitomo keiretsu, or corporate group-ing, lost Y14 to Y977; Dowa Mining fell Y9 to Y530.

Government-controlled companies lost ground as West Japan Railway announced that it had started listing preparations. East Japan Railway declined Y1,000 to Y589,000. Japan Tobacco Y20,000 to

Pound Sterling Index

246.53 240.90 209.39 202.97 303.47 294.16 187.50 182.36 184.85 178.15 285.41 257.27 191.31 185.44 284.04 275.32 186.04 180.33

0.2 205.67 146.54 168.82 183.48 0.0 2.11 212.74 206.21 146.77 188.80 183.82 214.70 184.45 184.45

| 199,83 | 193,70 | 137,86 | 158,50 | 167,85 | 192,16 | 186,27 | 132,56 | 153,51 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 151,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,64 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 152,62 | 1

171.46 198.37 208.35 252.43 144.46 167.13 185.16 211.36 209.37 242.23 265.72 306.61 115.56 133.69 117.69 177.01 127.53 147.54 143.24 190.57 163.11 211.55 264.74 266.82 131.98 152.70 160.51 122.67 195.96 226.71 245.07 266.56 148.36 148.49 147.60 191.65 145.37 168.18 179.12 213.05 168.78 195.26 232.38 247.55

Y841,000 and Nippon Telegraph and Telephone by Y9,000 to

The Finance Ministry announced that it had set the price for JT's second offering at Y815,000 as a result of investor screening. Industry analysts said JT could come under selling since the price was 3 per cent lower than yesterday's

In Osaka, the OSE average receded 24.57 to 23,495.14 in volume of 61.1m shares. Nintendo, the video game company, rose Y250 to Y8,440,

Roundup

After a 1.5 per cent gain on Saturday, TAIPEI followed on with a token improvement of 10.71 to a new 14-month high of 6,423.11. Turnover rose from T\$53.6bn to T\$58.9bn. Share prices were restrained, awaiting the outcome of trade talks between Beijing and Washington - which, eventually, concluded positively with the withdrawal of sanctions threats by both sides.

Maanwhila, tha ruling Nationalist party confirmed that it had plans to set up a fund, jointly with Morgan Stanley, to invest in the Taipei equities. Local newspapers reported that the fund would

Morgan Stanley's inclusion of Taiwan in its emerging markets index from September sent the island's share prices surging last week. KARACHI followed its worst

on Sunday, with short-covering and institutional aupport which took the KSE 100 index back up by 15.51 to 1,657.01. Sunday's setback was in reaction to the austerity budget announced last Thursday which involved the largest ever tax imposition in Pakis-

tan's history.
SYDNEY's resource stocks continued to drift following prices, especially copper, after the Sumitomo shock. The sec-

All Ordinaries index closed 8.7 on Friday's results, but the down at 2,207.5. broad market lacked incentives

BHP, stung early by the base metals slide, slid even further late in the session after the from its steel operations under pressurs for some time. The shares fell 33 cents to A\$13.32. MIM was 6 cents lower at A\$1.64, CRA off 25 cents at A\$19.55 and WMC 9 cents down at A\$8.87.

WELLINGTON was led higher by Telecom, previously oversold and recovaring 10 cents to NZ\$6, and Carter Holt Harvey, which put on 6 cents at NZ\$3.51. The NZSE-40 index ended 14.27 ahead at 2.072.17. SINGAPORE saw action in Cerebos, up 40 cents to S\$12.50

chips were virtually fiat, with the composite index giving up 0.87 to 1,124.81, but the smallcanitalisation Second Board index fell 4.50 to 417.66. Among the most active issues, Diperdana shed M\$1 to M\$22.10, giving back some of

and the Stratts Times Indus-

trial index closed L34 softer at

2,272.27, after reaching 2,289.47.

KUALA LUMPUR's blue

its recent gain, while SAAG continued on its upward path, jumping M\$2.40 to M\$31.80.

SEOUL was broadly weaker, but telecommunications shares staged a technical rebound after a sharp fall earlier in the ment of 27 new telecommunications licences. The composite index ended

3.06 lower at 856.43 in weak volume of 16.3m shares. Sungmi Telecom Electronics, a telecommunication equip-ment maker, moved ahead Won180,000 and LG Information and Communications rose.

Won4,900 to Won90,900. SHANGHAI'a B shares jumped 3.3 per cent on expectations that the city's government would follow the lead of Shenzhen's government and exchange in establishing a promotion group to boost hard currency B shares. The B index moved forward 1.661 to 52.245.

maintain its best levels, the BSE 30-share index finishing 17.90 up at 4,067.29, after touching 4,131.22, on a busy day for cornorate news.

Rs18.75 to Rs309 ahead of results, due after the close. Speculative demand pushed Colgats Rs4.75 higher to Rs275.25 and Reckitt & Colman

up Rs12 to Rs250.50. Hotel group shares were also sought. Leela leapt Rs10.50 to Rs163.50 on results, while East India Hotels climbed Rs22.50 to Rs736.25 on expectations of a

 Hong Kong was closed for a public holiday and Shenzhen B shares did not trade for thet

Ala-

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LIFFE's Three Month ECU Future. Trading from Strength to Strength.

International efforts cool copper market

By Kenneth Gooding. Mining Correspondent

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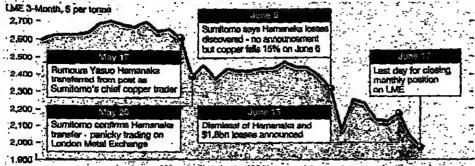
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The Hamanaka factor has been influencing copper prices for the past month and the market remains very nervous in case there is still had news to come. But yesterday, compared with some recent heetic activity, the London Metal Exchange's copper market was relatively

It seemed that the international efforts to ensure the market did not go into meltdown were bearing fruit. These efforts aimed at keeping the copper market stable and involved all key participants traders. banks, producers and funda – making sure they knew Sumitomo Corporation's positions on the LME and its

financial exposure. Traders suggested that, if the market was to remain stable, threa important questions needed to be answered; bow

Copper - The Hamanaka Factor



"long" position; were there any "hidden" copper stocks; and how big were the non-Sumi-tomo "tong" positions that might influence the market? Mr Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group, said that two schools of thought

were developing. The first is that Sumitomo and others

have steadily liquidated their long positions ever since Sumitomo discovered Mr Hamanaka's losses on June 5 and that there are now no significant dangers in the market.

"The other view is that there remain significant long posi-tions by Sumitomo and other traders, but, more worringly, significant hidden physical

stocks, which may come back to the market." Mr Lennon suggested the

resilience of copper prices yes-terday supported the view that further big falls were unlikely. Eventually, the market would start to focus on the fact that copper stocks were still very low rather than concentrate on the risk of a financial melt-

Mr Hamanaka has had a tremendous influence on the copper market for at least five years. On many occasions other traders suggested he was keeping prices unnecessarily high by using Sumitomo's financial strength to tie up LME stocks. So, when rumours spread on

May 17 that he was being transferred from his post as head copper trader, the price fell on worries that his successor might not wish to continue the same price support policy. As is often the case, the market rumours proved correct and oo May 20 Sumitomo confirmed that Mr Hamanaka had indeed been given a new role.

authorities with their inqui-The next big plunge in the copper price did not result from any market rumours but with hindsight we can notice a

June 6 two US hedge funds -Mr George Soros's Quantum fund and Mr Julian Robertsoo's Tiger fund - and Mr Herbie Black, president of American fron & Metal, a Mootreal scrap business, went into the LME's copper market and sold "short".

Their aim, traders suggest was to drive the copper price down to a level where those investment banks that had granted "put" options (or agreed to take delivery of copper at a future date) would also bave to sell to keep their books

This deluge of selling sent the copper price plummeting by 15 per cent in only two

In fact, it is now known that he was belping the regulatory What makes all this more remarkable is that, when Sumitomo announced on June 13 that Mr Hamanaka had concealed tossed of \$1.8bn, it also revealed that he had been disINTERNATIONAL NEWS DIGEST

US falls behind as aid donor

The US slipped last year into fourth place behind Japan, France and Germany as a provider of government development aid, and the total declined to \$59bn, the Organisation for Economic Co-operation and Development

(OECD) reported yesterday.

Japan remained by far the largest official aid donor last year with \$14.5bm, according to the OECD's development assistance committee. Helped partly by the strength of their currencies in relation to the dollar, France and Germany overtook the US to arrive in second and third place with \$8.4bo and \$7.5bn

US official aid fell by \$2.6bo - 28 per ceot in real terms - to \$7.3bn, partly because of delays in approving its 1995-96 budget but also because of cuts in food assistance and in those peacekeeping expenditures which qualify as aid. Last year the US devoted 0.1 per cent of gross national product to government aid programmes, its luwest tevel since the second David Buchan, Paris

Disarmament group expands

The Geneva-based United Nations Disarmament Conference, currently negotiating a comprehensive test ban treaty, was yesterday joined by 23 new members, including Israel, Iraq, North Korea and Syria. The move brings the total membership

Under the terms of eotry, brokered by South Africa, the 23 new members will renounce an individual right of veto on conference decisions for the next two years. This condition will continue to apply beyond that time to countries under UN

sanctions, a move aimed at Iraq.

Yesterday's decision puts an end to three years of wrangling over Iraqi membership, and earlier rows over the entry of Israel and others, which has prevented admission even of neutral nations such as Switzerland, Austria and Finland.

The admission of new members does not directly affect the test ban treaty talks, due to end by June 28, in which the 23 Frances Williams, Geneve are observers.

Lebanon wins Y13bn loan

The Japanese government vesterday announced its first official loan to Lebanon in 22 years. The Y13bn (\$119m) credit, for drinking water supply and sewage disposal systems, was announced by Mr Ryutaro Hashimoto, the prime minister, to Mr Rafiq Hariri, his Lebanese counterpart, on the second day of a three-day visit to meet Japanese government officials and businessmen. The projects, in four coastal cities, will be co-financed with the World Bank.

The soft loan comes two months after Mr Hariri appealed to Asian governments, including Malaysia and South Korea, to help finance Lebanon's reconstruction after 17 years of civil war. Mr Hashimoto asked his visitor to tone down hostilities with Israel at a summit of Arab teaders, due to open in Cairo on Friday. In response, Mr Hariri called on Japan to join a proposed international council to co-ordinate assistance for

This is the first Japanese assistance for the country since an export credit granted by the Export Import Bank of Japan in William Dawkins, Tokuo

'Wild ride' awaited as turmoil halts share offering

By Laurie Morse in Chicago

The effects of Sumitomo Corporation's \$1.8bn losses yesterday surfaced in the copper industry, when a large US copper producer withdrew a planned share offering, citing the copper market turmoil.

Japanese regulators yesterday

admitted that one factor in the

failure to detect the build-up

of Sumitomo Corporation's

\$1.8bn loss over the past

decade is that no single organ-

isation in Tokyo is responsible

for regulating trading compa-

nies, William Dawkins writes

The Japanese government is

often criticised for being a patchwork of turf battles. In

Sumitomo's case, the battle is not so much for territory, as

for avoidance of embarrass-

ment. No one in the various

branches of government with

an interest in trading compa-

nies was yesterday prepared to

admit to being in charge.

Minerals Company, which had expected to raise about \$280m with the sale of 12m shares, bas postponed the offering indefinitely. The copper producer's share

price has fallen almost 10 per cent since the issue was announced on May 17, which Denver-based Cyprus Amax was also the day when

should be governed by the dif-

ferent departments of the min-

istry of international trade

and industry, responsible for international trade, mining

and commodities. Miti also

supervises Japan's commodity

exchanges, from aluminium to

gold, an area where its trade

interest verges on the finan-cial. But, as Mr Kelsuke Sada-

mori, Miti's deputy director of trade policy administration,

pointed out with almost palpa-

ble relief, Tokyo has no copper

market, despite the fact that

Japan has the world's second

largest copper smelting indus-

try. "That was the first ques-tion I asked myself," he said.

Accordingly, concluded Mr

rumours began circulating about the transfer of Sumitomo's chief trader, Mr Yasno Hamanaka. Copper company revenues are tied directly to London Metal Exchange prices, and given the current market slide, investors are backing away from investing in some of these companies.

lations that came under his

ministry's purview. "This has no relevance to Miti regula-

tions," be said. Irrelevant per-

haps, but trresponsible cer-

tainly not, he added. Miti was

in touch with the UK and US

investment anthorities and

by its opponents in other gov-

ernment ministries, to believe

that it is in charge of almost

everything, politely pointed

out that trading companies are

not regulated by any single

Japanese authority. Any illicit commodity dealings should be

policed by the UK authorities,

since that is where the unau-

thorised trades occurred.

would offer help if needed. .The finance ministry, held

US copper industry execu-tives and market analysts say they are braced for what one termed as "a wild ride" for prices this year.

The decision is based on the

recent turmoil in the copper markets," said Mr Michael Rounds, Cyprus Amax's direc-

Lack of single watchdog helped conceal losses

The Bank of Japan was equally discreet. Its responsibility was limited to ensuring that any fall-out from the Sumitomo loss did not damage other financial institutions, said an official.

As Sumitomo's case was passed round from ministry to ministry, one government official wondered whether there was a disturbing moral to the regulatory muddle. There is, I suppose, a chance that when you have a number of interrelated problems such as this, that you could have systematic risk." But sensitive to Tokyo turf battles, be declined to allow his name and ministry to be published.

a reoffering of the shares would depend on market condi-

Although Cyprus Amax has used warrants to construct a minimum price or "floor" for some 1.1bn pounds of its copper production through 1997 investors are atill worried about the firm's revenues from copper sales, which are based on LME prices.

They said volatility in the copper market was likely to continue so long as Sumitomo still has ootstanding investments which must be unwound.

There is concern on US markets that Sumitomo's copper losses could rise to as much as

Nearly all of the world's biggest copper producers bedge their annual outpot through the purchase of "pots" that put a floor on the price they will

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receive for their metal. This insurance is based on an average of LME copper prices for the year.

Although the price "floor"

guaranteed with these con-

tracts varies by company and

by period hedged, analysts say a large number are fixed at 95 In London trading yesterday, copper prices for spot and futures delivery had falleo below this level, putting bundreds of millions of dollars

worth of these options "in the

money". If prices remain low, financial institutions, believed to be derivative dealers such as JP Morgan and Banker's Trust, which sold the options to the copper producers will be faced with paying the copper companies the difference between the "insured" price and the market price.

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Technically, Sumitomo Sadamori, Sumitomo had bro-Netanyahu unveils sweeping reforms to liberalise economy

Hardline stance on peace talks maintained, reports Julian Ozanne

n his first official signal of future government policy, Israel's prime minister-elect Mr Benjamin Netanyahu. bas committed his administration to sweeping reforms of the economy but retreated little from his pre-electoral hardtine stance towards Middle East peace.

His expected line-up of cabinet ministers bas also calmed the fears of foreign and local investors.

The Treasury job witt be given to either Mr Dan Meridor, a Likud party moderate, or Mr Jacob Frenket, central bank governor, rather than Mr Ariel Sharon, the hawkish former general who demanded the finance portfolio. But policy guidelines pub-

lished yesterday will give Arab states, whose leaders meet in Cairo this weekeod, little hope that Mr Netanyahu will be able to sustain efforts to reach e comprehensive peace agreement in the region.

The package reflects Mr Netanyahu's conviction that his government will be marked by a transformation of Israel's domestic agenda rather than any dramatic changes in its external relations. The real surprise in the

guidelines is the extent of economic measures the new government intends to take to push ahead with liberalisation and deregulation of the economy. The government plans to reduce the budget delicit by expenditure cuts rather than increases in taxation. It will move swiftly to privatise the economy and carry out the deregulation and sale of the 92 per cent of land owned by the

"The government will stop the continuation of the current policy which created heavy deficits and which threaten the trade bolance and the bolance of payments and will take all means occessary to reduce them," the guidelines say.

Mr Netanyahu also promises to slash bureaucracy, restore hiblic faith in the stock market, increase incentives for the development of small aod medium-scale enterprises and intensify Israel's policy of trade liberalisation. Mr Netanyahu's determina-



Shimon Peres during speeches at the last official parliament function yesterday

Annual % change in CPI 20 199091.82 93 94 95 96 97 1990 91 92 93 94 95 96 97

tion to make an immediate and radicalshift in the direction of economic policy was behind his flerce resistance to Mr Sharon's bid for the Treasury. Clearly he wanted Mr Frenkel as finance minister but he may now be forced to accept Mr Meridor or risk a rebellion by the leadership of his own right-

wing Likud party.
Israel'e stock market yesterday reacted positively to the unfolding of the new government and its economic policy. The Mishtanim index of the top 100 companies rose 5.07 points, or 2.5 per cent to close at 205.37.

Senior aides said part of the reason behind Mr Netanyahu's postponement of a visit to

Washington from this month to next month reflected his desire to put some economic measures in place before his departure.

However, at least as important to Israel's business community and foreign investors is the new government's attitude towards Middle East peace and the policy guidelines will not be viewed as encouraging.

On the peace process with Palestinians, the guidalines commit the government to negotiate with the Palestinian Authority "with the intent of reaching a permanent arrangement" but say it will oppose a Palestinian state and will "reinforce the status of Jerusalem as the eternal capital

The second of th

of the Jewish people".
Palestinians view an inde-pendent state with Israeli-occupled Arab east Jerusalem as the only basis for permanent settlement talks.

The new government also pledges to allow Israeli military forces to ect "everywhere", implying the possibility of breeching the peace accords by sending soldiers on special missions inside areas of absolute Palestinian sovereignty. It is also committed to maintaining Jewish settlements on occupied Palestinian

Behind these policy guidelines lies Mr Netanyahu's view that he can force Mr Yassir Arafat, president of the Palestinian Authority, to accept limited antonomy in pockets of land of the West Bank and Gaza and meet all of Israel's security demands by threatening him with a continued economic blockade.

On Syria Mr Netanyahn has beaten off rightwing demands for an official freeze on talks on exchange of the Israel-occupied Golan Heights in return for peace with Damascus.

The guidelines commit the government to negotiate with Syria without pre-conditions. But they also say: "Retaining Israeli sovereignty over the Golan will be the basis for an arrangement with Syria" - a non-starter as far as Damascus is concerned.

The guidelines reveal the continued thinking by Mr Netanyahn that somehow Syria can be indoced to the negotiating table with anything less than the prospect of a full recovery of the Golan Heights - a strategy viewed as preposterous and potentially explosiva by Syria.

The form of the new Israeli government goes to show...that the region is approaching anything but peace," said yesterday's al-Baath, the newspaper of Syria's ruling party. It adds: "Netanyahu's pro-

gramme, which is full of hate to Arabs, and his insistence on keeping Arab lands is enough proof to convince everybody that the Israeli expansionist and aggressive policy is

ARAB REPUBLIC OF EGYPT **Egyptian Electricity Authority (EEA) IFPQ 61/96**

EEA is planning shortly to invite experienced Independent Power Producers/Developers to submit their pre-qualifications to implement a Build, Operate, and Transfer (BOOT) power plant project. The BOOT project will be two 325MW steam units capable of firing both natural gas and oil. The BOOT Project Developer will be required to design, finance, construct, own and operate the BOOT plant for an extended number of yeers. The Developer will sell the electric power to the EEA in accordance with a Power Purchase Agreement and eventually transfer ownership of the plant to EEA at the end of the specified period.

Interested Developers are requested to respond to the following questionnaire:

- 1. Whet is the legal name, address of the responding organisation (Developer)? Include the phone and fax
- 2. What are the types of other organisations the developer mey include to form a consortium capable of completing effectively all the required activities for the BOOT plant, eg financial, technical (design and O&M), commercial, etc?
- 3. What is the nature of this consortium to be developed to underteke this project: joint venture. subcontracting, etc?
- 4. What are the related tasks end activities performed by the Developer's organisation on other BOOT projects? Other tasks related to different type projects such as BOO, BOT, ROO (Reheb, Own, Operate), RLO (Rehab, Lease, Operate) which are applicable to this BOOT Project mey be elso included. Provide e list of all these projects.
- 5. What was the level and nature of the responding organisetion's involvement in each of the tasks and activities listed in question 4 above?
- 6. What are the names, description, and the current status for each project listed in question 4 above?
- 7. Whet were the other parties the responding organisation teamed with to work on the projects listed in question 4 above?

The answers to these questions will be used by EEA as a basis for selecting the developers who will receive the Request for Pre-Qualifications (RFPQ). The qualifications of the organisations responding to the (RFPQ) will then be evaluated by EEA to establish a short list of qualified Developers. EEA will send the Request For Proposel (RFP) to the short listed Developers inviting them to submit their proposals for the intended BOOT project. The responses of the interested Developers to the above seven questions (not to exceed six peges) must be submitted to the following address before 12.00 noon, Thursday,

General Director of Central Purchases, Egyptian Electricity Authority, Abassia, Cairo, Egypt Tel: 261 6537 Fax: 261 6512/401 1630

Public Policy Editor

Mr John Gummer. environment secretary, vesterday condemned moves to weaken Britain's ties with the European Union as "a betrayal of London which would do fundamental damage to our national prosperity

in an interview with the Financial Times before the publication today of a government-sponsored report on the capital's economic prospects, Mr Gummer warned of the damage which isolation from the "heart of Europe" would inflict on the UK.

His outspoken remarks will fuel divisions in the governing Conservative party over Europe only a week after the largest House of Commons rebellion yet by Tory Eurosceptics and the well-publicised donation to a Eurosceptic campaigning group from Baroness Thatcher, the former prime

Mr Gummer's pro-European credentials are second in the cahinet only to those of Mr Kenneth Clarke, the chancellor of the exchequer. The report be is launching, hy a team of independent planning consultants and academics, claims Loudon remains highly competitive with New York, Paris and Tokyo as a "world city" in terms of finance and business services, international institutions, tourism and culture.

The report says Tokyo, by contrast, has a far weaker international position, which further as Hong Kong, Singapore and Shanghai increase their regional importance.
It says the UK capital faces

more direct competition than ever before" against other leading cities worldwide, particularly for its European pre-eminence as a husiness and cultural centre.

Mr Gummer said yesterday: "We have got to be very strong in our membership of the EU so that London is central to its operations. At this moment there are only two truly world

cities - London and New York, and we have to do all we can to

stay ahead." The report, by a team including consultants from Llewelyn-Davies and Comedia and academics from University College London, says London is "per haps the most international of all the world cities". It scores particularly highly in finance and business services.

However, the report warns there is no natural reason wby London or New York should always be the world's premier financial centres" Many "beadquarters" functions could disperse "either to cheaper locations or to strengthening political centres such as Brussels".

The need for extra infrastructure investment is also raised starkly by the researchers, particularly in the field of tourism. They call for a "concerted plan" to increase capacity and improve visitor attractions. and "substantial improvements in quality and

quantity" of hotel rooms. The report said London had the capacity to double visitor numbers over the next 20 years, adding between £5bn (\$7.65bn) and £10bn a year in foreign earnings. But that would happen only "if there is a concerted effort to plan and increase capacity - street life, attractions, entertainments, hotels, transport."

It also stressed the need for improvements in transport, environment and huildings contrasting government policy starkly with that in Paris. whose transport and grands projets investments have been extremely successful in rejuvenating Its image and econ-

The report does not comment directly on the case for an elected strategic authority for London, as proposed by the opposition Labour party. But it stresses that London is "by no means unusual" in not possessing an elected body covering the whole metropolitan conurbation.

Martin Wolf, Page 13

Dublin cabinet to meet today about IRA attack

After the IRA ceasefire

Feb & Blast at Canary Wharf in east London: two die and more than 100 injured. Bomb explodes an hour after statement issued in Dublin says that "with great reloctance the complete cessation: of military operations will end at 18h00"

Ireland's elusive peace Fears grow of backlash by pro-British 'loyalist' paramilitary organisations

Feb 10: Pro-British paramilitary groups in Northern Ireland do not order Immediate retailation and say they will "consider their position in a caim and orderly way".

Feb 13: Three main parties in Republic of Ireland condemn IRA for enting ceasefire.

Feb 15: "Device" left in London phone box is made safe:by Scotland Yard. . Feb 18: Sentex bomb being carried on bus in central London by IRA volunteer Edward O'Brien

explodes, killing O'Brien and injuring four other people.

Mar & Bomb explodes in litter bin in west London; no casualties. Apr 17: Another bomb explodes in west London; no casualties.

Apr 24: Large bomb planted near Hammersmith Bridge over Thames in west London falls to explode. Jun 7: Two police officers in car escorting Post Office van in Adare in the Republic of Ireland are shot after car is rammed. One of the two, Detective Gerry McCabe (52) dies soon afterwards. IRA

Jun 13: Sinn Fein president Geny Adams condemns killing of McCabe and says he accepts IBA denial. Commissioner Patrick Culligan, head of the police in the Irish Republic, says he is certain IRA killed McCabe. Jun 15: IRA says some of its members were involved in Adere shooting in contravention of orders

against attacking enforcement authorities in republic; bomb explodes in Manchester shopping district - hundreds injured by flying glass. Jun 18: "Purishment beating" in Beltest: youth aged 16 has arm and leg broken by masked men using iron bars. Youth says men said they were from IRA. ...

leader of the opposition Progreasive Democrats in the republic, said: "The ceasefire has been comprehensively broken. The question now is whether the government should re-arrest those IRA men

who were released from prison

during the ceasefire. Under the

legislation they would have the

IRA in the aftermath of the

Ireland are expected to continue to resist calls

The immediate response of the coalition government in the Republic of Ireland is likely however to be less emotional than the weekend television performance of Mr John Bruton, the prime minister. Mr Bruton feels personally let pursued a policy of accompdating the republicans which

many observers believe was against his better instincts.
British ministers, while appreciative of Mr Bruton's consistently harder line, fear that once the immediate outrage has passed, the Irish cabinet will be unable to agree on any fundamental reappraisal of

Sanior MPa in London

helieve that the spotlight will now be trained on Dublin. "All we can do is press ahead with sensible security measures while making clear to Sinn Féin that we will no longer be so amenable. Beyond that, it's up to the Irish," said a leading

House of Commons.

Mr Seamus Mallon, the SDLP deputy leader, told Irish radio that the republican moves faced "a moment of truth". Quoting a Chinese proverb he said It was one thing to be fooled a first time, but something quite different to he fooled twice.

Conservative member of the

The events of the past 10 days have bad a cathartic effect on attitudes towards Sinn Féin and the republican movement south of the border. The Irish police report a record leval of response to their request for information on the IRA gang suspected of involve-ment in the killing Detective Gerry McCaba. Such a response would have been anathema to many Irisb people before the latest outrages

Many Irish people blame their government for being too lax in its programme of prisoner releases and in not maintaining its surveillance of republican suspects during the efires.

paramilitary activities have

that a ceasefire was close to

The administration was bop-

ing that this would in turn

pave the way for Sinn Fein's

· Fears increased yesterday

of a becklash hy pro-British

paramilitary groups in response to the IRA's bomb in

Manchester, John Murray Brown writes in Dublin. The

largest of the Northern Ireland

Protestant terror groups said it

had placed its personnel on

being declared by the IRA.

inclusion in political talks.

been exacerbated by reports of vigilante murders of drug dealers and small-time criminals in Dublin and elsewhere.

Fianna Fail, the main opposition party, and traditionally the party with the closest links with Sinn Fein, cautiooed against breaking off ties. If you break the link, you have no influence. Then we're back to the 25 years of violence. said Mr Dermot Ahern, 3 Fianna Fail deputy for the bor-

der region.

Mr Dick Spring, the lrisb deputy prime minister and for-eign minister, conceded that there were confusing signals from the republican movement. Hitherto the government's line had been that the angaged in a fierce internal bate, over which Mr Adams had little or no control. In government circles there was a growing incredulousness at Mr Adams's profession of ignorance of the actions of the IRA

However, in an implicit criti-cism of Mr Adams, Mr Spring remarked curtly that the cabi net meeting would seek to make an assessment "whether; or not the leadership is serious about hringing an end to the violence." Mr Bertie Ahern, the Fianna Fail leader, conceded that the government could not Worries about the IRA's continue "indefinitely" to

Mr Des O'Malley, the deputy adopt harder line on visas for

By Jimmy Burns in London

By John Murray Brown in Dublin and John Kampher

The Irish cahinet will meet

today in the wake of the Irisb

Republican Army's bomb

attack in the English city of

Manchester, with Mr John Bru-

ton, the prime minister, under

growing public pressure to

offer more than another verbal

The pan-nationalist approach

has been shattered by the lat-

est outrage and by the killing

of a policeman in the republic

by IRA members 10 days ago.

The approach is centred on

securing Sinn Fein's acquies-

cence to a settlement in North-

ern Ireland, with the backing

of the moderate nationalist

Social Democratic and Labour

party and of opinion among

There was a feeling vester-

day in the Dail, the lower

House of the republic's Parlia-ment, that the policy of accom-

modating hardline republican

organisations had run its

Unlike at Westminster, no

mainstream Irish politician is

talking about internment -

detention without trial. How-

ever, there appears to be a gen-

eral acceptance that if the

atrocities continue, a security

clampdown may be necessary.

Irish Americans.

rebuke to Sinn Fein.

The US administration is thought to be prepared to harden its policy on visa applications for known republicans including Sinn Féin president Mr Gerry Adams if they do not disassociate themselves fully from the resumption of terrorist violence.

But the administration appeared to be holding back yesterday from taking the political initiative on Northern freland, adopting a wait-and-see attitude while the governments of Britain and the Republic of Ireland assessed the implications of the Man-With both UK and Irish intel-

homh. US officials were remaining cautious. Officials in Washington believe the next few days could prove critical in deciding whether the current peace process can hold itself

ligence providing few clear One area of particular conclues aboot the position of the cern to Washington remains of the IRA behind him.

for the reintroduction of internment, Jimmy Burns writes in London. Both governments have the legal powers needed to introduce detention bof terrorists without trial at short notice. They have identified people whom they believe are leaders of the Irish Republican Army as well as many members and sympathisers who could be arrested in a hig crackdown. But enforcement authorities and government officials believe than any security advantage

> the degree of influence exerted hy Mr Adams on the republican movement as a whole. While it is looking to Mr Adams to come out firmly on the side of peace, Washington would equally like to be reassured that he can carry not just Sinn Fein but the majority

The governments of Britain and the Republic of that might be gained by carrying out widespread arrests would prove short-term and would produce negative political fall-out. Internment was last used from 1971 to 1975 when the level of violence in Northern Ireland was much greater than now. Internment temporarily disrupted IRA

operations and provided soma intelligence about the organisation. But it led to an upsurge in violence and in recruitment for the IRA, and alienated the nationalist community from the

> A senior Sinn Fein official, Mr Mitchel McLaughlin was allowed into the US last week as part of the Clipton administration's policy of trying to encourage dialogue on the Northern Ireland question. But US officials were

shocked by the weekend bomb which shattered their helief On Sunday, hefore the state-

alert in response to what it claimed were IRA plans to resume violence in the region. The statement from the Ulster Freedom Fighters, which is linked to the Ulster Democratic party, called on the IRA to reinstate its ceasefire.

Spring, the Irish deputy prime minister and foreign minister, said the pro-British paramilitaries had responded with great restraint to IRA provoca-

Mr Billy Hutchinson of the Progressive Unionist Party, which is aligned with the thinking of the Ulster Volunteer Force, said: "Every time an IRA bomh goes off it puts pressure on the loyalist ceasefire. Every time it goes off means we are a step closer to a resumption of loyalist violence, unfortugately.

Security sources believe loyalist paramilitaries were involved in a reconnaissance dummy run when a hoax car bomb was discovered at Dublin airport last month.

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By Robert Peston in Bonn

Mr Tony Blair, the leader of the opposition Labour party. was positioning himself yesterday to end his party's qualified support for the Conservetive government's non-cooperation

policy in the European Union. He signalled that Labour's patience was wearing thin on a short tour of Germany, where he met the Chancellor, Mr Helmut Kohl, and the German president Mr Roman Herzog.

He insisted to the German leaders that the scientific case for removing the ban on British beef exports was strong, while recognising that the European public remains to be convinced

However, he indicated that this week's summit of EU government heads in Florence would be a turning point in Labour policy. One of his close aides said that, given the scale of the government's anti-EU offensive, Labour would judge as a success nothing short of a firm timetabla for lifting the ban and a package of financial aid to British farmers additional to EU budget rebates.

Since British ministers have been playing down expectations of agreement on this scale, Labour has given itself room to attack the government's tactics after Florence. "A lot depends on what happens in Florence", said an aide. The government should con-

Labour is considering plans for a significant strengthing of the powers of the UR's utility regulators, Jamnes Blitz writes at Westminster. They would be given the right to identify and

punish anti-competitive practices. In a new indication that the party is determined to attack restrictive practices, Labour's trade and industry team has been examining plans to allow utility regulators to act as "market police-Regulators already have

considerable powers to draw up rules, mainly affecting con-sumer services and prices. But Labour believes that the regulators would also be far better placed than the Office of Fair Trading to make swift decisions on anti-competitive prac-tices. It is believed Labour's desire for faster decision-making reflects the delays in resolving competition issues in the telecommunications indus-

negotiation, diplomacy and communicating why British beef is safe" to secure EU agreement at Florence, Mr Blair said after his meeting with Mr Kohl.

The Labour leader defended his current united front with the government. He told Mr Kohl that it would have been against "the national interest" for Labour to attack the prime duct a "massive exercise in minister's efforts to have the

lifted. It was "essential we do nothing to undermine" that, he

In all his meetings, Mr Blair is stressing that a Labour gov-erument would want a "fresh start" in British relations with the EU, based on a more "posi-

"Our best interest is served by being strong in Europe" he will tell the biennial conference of the German employers' organisation, the BDL today, while attacking the veiled calls of some in the governing Con-servative party for the UK to

withdraw from the EU. He will make it clear that Labour is far more sympathetic to European monetary union than the government saying that the primary obstacle to a Labour government signing up for a single cur-rency is the need for the UK

A Labour official said Mr Blair would tell the BDI that Labour had "no overriding objection to a single currency". But the official said that Mr Herzog and Mr Kohl both made it clear that Germany was intent on participating in monetary union at the earliest possible date of 1999.

Mr Blair's trip to Germany has attracted considerable local media interest. His meeting with Mr Rohl lasted 90 minutes, double the time scheduled.



The subject of this portrait was long believed by eminent authorities to be Lady Jane Grey, who survived as queen of England for only nine days in 1553. Now a Canadian scholar, Susan James, has demonstrated that the lady is Catherine Parr, the sixth and last wife of the flamboyant Tudor king Henry VIII.

Buses turn to beat pollution

By Charles Batchelor, Transport Correspondent

The National Express coach group is to start running a fleet of 14 gas-powered buses on a busy route in the west Midlands in an attempt to reduce exhaust emissions, it amnounced yesterday.

The company joins a growing number of bus operators and local anthorities to introduce gas or electric-powered vehicles to reduce pollution in city centres. While the cost of vehicles is high, operators feel it is important to keep ahead of legislation.
The west Midlands suffered

particularly badly from pollu-tion last summer and diesel vehicles are believed to be one of the biggest causes. Opera-tors are worried they will be banned from city centres if the problem persists.

A total of 150 buses similar

to those ordered by National Express are already in use in Gothenburg and Malmo in Sweden. About 900 gas-powered buses are in use worldwide while a further 500 are on order, according to a recent report by the UK National Federation of Bus Users.

West Midlands Travel, a National Express subsidiary, will spend £2m (\$3.06m) on Volvo huses powered by compressed natural gas (CNG).

The advantages of CNG incinde low emission lavels and the almost complete absence of sooty particles, the company said. Unlike liquefied petroleum gas (LPG), which has to be delivered by tanker, CNG can be supplied from the national gas grid.

However there are disadvan tages to using CNG. By com-parison with the rest of the European Union, Britain imposes a high level of fuel duty on natural gas. CNG is stored under pressure but requires more space than LPG and diesel.

A bus with a 250litre diesel tank would require a 1,200 litre gas tank - often on the roof - for an equivalent mileage. A gas engine is also 10 per cent less fuel efficient than a diesel engine.

UK NEWS DIGEST

to gas fuel US bank to open London office

Some of the US's top bigh technology investment bankers are expanding their London operations in anticipation of a boom in flotations for European growth companies. Hambrecht & Quist, the San Francisco-based investment bank which is one of the US's leading specialists in the electronics, healthcare and consumer goods sectors, announced vesterday that it is to open a London office to provide corporate finance and brokerage services to emerging companies in Europe. It follows not on the heels of Robertson Stephens, another

San Francisco-based investment bank which was one of the leading sponsors of stock market flotations last year in the

same high technology and healthcare sectors.

The US arrivals come as European stock exchanges expand their efforts to attract smaller companies to the market and just a few months before the scheduled opening of Easdaq, a Europe-wide exchange for smaller companies modelled on the US Nasdaq. Mr Joshua Rafner, bead of investment banking at Hambrecht & Quist, said his firm saw Europe as "the prime growth area for technology and life science stocks in the next

The US investment banks have already begun to introduce European companies to the Nasdaq market in New York, and in which they specialise Hambrecht & Quist already has joint ventures with Beeson Gregory in London and with Credit National in Paris, and is looking for partners in other European countries.

George Graham, Banking Correspondent

Outhwaite Names in court

The Outhwaite 94 Names Association has issued writs in the High Court on behalf of 900 Names, who are investors whose personal wealth has traditionally supported the Lloyd's insurance mar-ket. They claim their syndicate faces losses of up to £300m (\$460m) in respect of the 1990 year of account. The defendants include the underwriting agency RHM Outhwaite, Mr Richard Outhwaite and auditors Ernst & Young. The issuing of writs, which was expected, comes when Lloyd's is seeking agreement to its plan for reconstruction and renewal. The association said there was still "room for improvement" in the terms of the offer. If Names in general agree to a settlement, the suit will become superfluous for most of those involved. Jim Kelly, Financial Services Staff

Radio fees may rise 300%

Mobile phone companies and other groups offering radio-based services could find their radio spectrum licence fees increased by more than 300 per cent under government proposals set out yesterday. Cellular operators such as Vodafone or Cellnet which currently pay £28,800 (\$44,100) for a national radio channel could be paying £177,000 under the proposals, published in the consultation paper. Mr Ian Lang, trade and industry secretary, said the aim was to encourage better management of scarce spectrum. Radio spectrum is managed in the UK by the Radiocommunications Agency which currently sets licence fees to recover the costs of managing the spectrum - about £38m a year - rather than the value of the

spectrum to an operator.

There is, therefore, little incentive to use spectrum efficiently or to return to the Agency unused spectrum. As a consequence there is a scarcity of spectrum and congestion of the airwaves, especially in city areas. Orange, the mobile phone operator which would see its fees rise from £28,800 to £96,000, said it welcomed the proposals if they encouraged better use of the available spectrum.

Alan Cane

Biggest trade union issues tough warning on pay

By Andrew Bolger, **Employment Correspondent**

Unison, Britain's largest trade union, yesterday sent a strong signal that an incoming Labour government would

face strong pressures over pay in the public sector and over a national minimum wage. At the moment Britain hads no statutory minimum wage level. The annual conference of the union, which has 1.3m members, voted to "redress the balance caused by the freeze imposed on the public sector pay bill over the last few years which has seen pay levels lag behind the average

increases in the economy". The delegates in the southern

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England town of Bournemouth also promised to resist any moves towards continuing government-imposed incomes policies. Mr Rodney Bickerstaffe, Unison's general secretary, said it would be hypocritical for MPs to vote themselves a 30 per cent pay rise and then insist that any other public sector pay increases be funded by redundan-

cies or improved productivity. On minimum pay, Unison re-affirmed its target of half male median earnings - currently £4.26 (\$8.50) an hour - in spite of the Labour party's refusal to set a figure before the next general election. Mr Bickerstaffe said: "We don't want a rate so low that everyone is exploited." The conference

defied its executive and supported an for Britain, for Europe, for the world amendment which instructed the union to put its £4.26 figure in a motion to the Trades Union Congress in September. Last year, the TUC voted in principle for a minimum wage, but succumbed to pressure from the Labour party's leadership not to specify a figure.

The Unison conference also expressed opposition to the economic convergence criteria within the European Union's Maastricht Treaty. If a British govern-ment called a referendum, Unison said it would campaign against joining the single currency "unless these criteria are substantially changed in favour of monic growth and full employment". Mr Bickerstaffe said: "The way forward

economy, cannot be on the basis of simply cutting back welfare services." Unison conference delegates said the Maastricht Treaty enforced a deflationary monetarist regime throughout Europe. There is a clear division of views between deflation and monetar-

ism on one hand and a reflationary growth strategy, with government intervention to ensure its success, on the other, it is not possible to ride both these horses at the same time." · Friday's one-day strike by mail workers will go ahead in spite of talks yesterday between the Royal Mail division of the Post Office and the CWU trade union.

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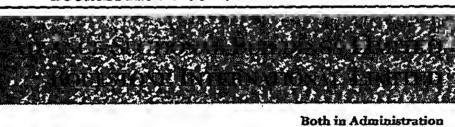
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The revelation that plastic can conduct is no longer the answer to an unasked question, says Vanessa Houlder

Electrifying effects

or years, nobody doubted that plastic was an insula-tor. The rationale was simple: plastic could not conduct electricity because its atoms were bound in such a way that the electrons had no freedom of move-

entreoched that the discovery in 1977 of a plastic that could transmit electricity was met with incredulity. "A lot of people did not believe lt, recalls Alan MacDiarmid, one of the chemists at the University of Pennsylvania who synthesised the com-

But the sceptics found that the results could be replicated. When a pinch of iodine was added to a particular form of polyacetylene, its cooductivity increased by more

By "doping" the plastic with atoms that were able to give up spare electrons to the polymer bonds - or grab extra electrons back - the chain of organic molecules in the plastic became electrically unstable. As a result, the electrons could flow across the length of the polymer when a voltage was

The discovery was a breakthrough in materials science. Tha polymer had the flexibility and ease of processing of cooventional plastic but the electromagnetic, elec-

tronic and optical qualities of metal. Yet the applications of the newly discovered substance were not immediately apparent. "When wa first put conducting polymers oo the sceoe, people said that they had the ideal answer for the question that had not yet been asked," says MacDlarmid.

On the face of it, that comment still holds true. Conductive plastics bave few mainstream applications. For most roles, these "synthetic metals" are more expensive and poorer conductors of electricity than ordinary metals.

But champions of conductive polymers argue that their benefits do not depend oo cost advantages but oo the unique properties of the

There has been no shortage of interest in exploring these proper-

ties. Companies such as AlliedSignal, BASF, IBM, and Neste of Finland have invested in the field. The number of academic researchers has expanded: the last conference on synthetic metals produced

nearly 1,500 abstracts. Examples of applications that have already materialised include anti-static flooring, electromagnetic shielding for equipment in aircraft, batteries with very slow discharge

One goal is to make a lightweight, flexible display, such as a flat TV screen or a roll-up electronic newspaper

rates, alectrochromic displays for car sun-roofs that change colour on the application of a voltage, and "electronic noses" that detect gases because the chemicals change the conductivity of a thin film of con-

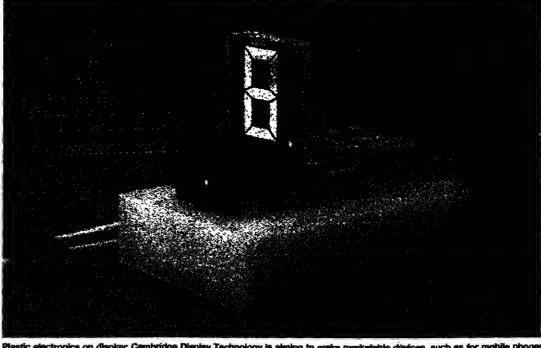
ductive polymer. Other applications still in devel-opment include a replacement for lead solder in joints in electronic equipment, which IBM is working sity of Pennsylvania

Many of the most intriguing applications have resulted from developments in the fundamental understanding of conductive polymers. Although researchers do not fully understand these materials, the arrangement of the polymer chains and their purity have been shown to have a crucial infinence on their properties.

These insights have halped researchers to increase the conductivity of doped polyacetylene from its 1977 levels of 38 siemens per centimetre to at least 80,000 siemens per centimetre. Weight for weight, that is comparable to the conductivity of metal, although it is about 100 times less than metal in volume

Some scientists are working on methods that could improve plastics' conductivity still further. In the UK, for example, at the Univer-sity of Durham, researchers are trying to improve the properties of polyaniline to the point where it could replace copper braids in coax-

ial cables. There is still no agreement among scientists in the field as to what the maximum conductivity of conduct-ing polymers might be. "As far as



Plastic electronics on display: Cembridge Display Technology is aiming to make marketable devices, such as for mobile phones cations - although these are still organisation of the conductive poly-

science is concerned, the sky is the limit," says MacDiarmid. "There is a huge amount to be discovered." Increasingly, researchers have turned their attention to investigating polymers that ape semiconductors. In particular, acieotists have focused on the consequences of two

scientific breakthroughs in 1990. One was the development of a polymer transistor by Francis Garnier at the Laboratory of Molecular Materials in Thiaa, France, Its advantage was that it was entirely flexible; the disadvantage was that it was slow - the mobility of the electrons was 100,000 times less than inamorphous silicon.

mer, Garnier has aubstantially speeded up the electrons mobility to the point where it could be used in a basic display, such as that for a microwave oven, which does not need fast electronics. He anticipates further improvements. "By the end of this year, we will have mobility equivalent to amorphous silicon.

Philips, which has collaborated with Garnier's team in the past, also reports "outstanding research results" in the field of plastic elec-tronics. It believes that their possihie applications are liquid crystal displays, radio frequency identifica-tion tags and simple chip card appli-

the company set up to exploit Friend's advance, believes it can turn the concept into a marketable device, such as a display for a mobile telephone, by the end of 1997. Uniax, a company based in Santa Barbara which is working on rival technology, has similar goals: a prototype early next year and a commercial product in the next 18 months to two years.

far off.

The other important development

of 1990 was the work of Richard

Friend and colleagues at the Uni-

polymer - poly-p-phenylenevinylene

or PPV for short - between two electrodes. The positive terminal removed electrons from the plastic

- the equivalent to introducing pos-

itively charged "holes". When elec-

trons from the negative electrode fell into these holes, they gave off energy in the form of photons.

Cambridge Display Technology,

One of the ultimate goals for

tion from alternative technologies.

But Priend is optimistic about

their potential. "The intrinsic stabil-

ity of polymers as semiconductors

is looking very good and the ability to generate light is better than I

ever thought it could be," he says.

"The more we learn about the mate-

rials, the more promising they look."

They sandwiched a conducting

versity of Cambridge.

researchers is to make a light-weight, flexible display, such as a flat television screen or a roll-up electronic oewspaper. Such a development is not yet on the horizon. In any case, light-emitting polymers would be up against stiff competi-

sprayed with a thin layer of the "paint" can become conductive too. plastic, could replace copper in

Giants score on TV ads

The San Francisco Giants in the US will become the first major league base-ball team to use defence indus-try technology to capitalise on advertising revenues earned during live broadcasts.

For the current baseball sea-son, the Glants have signed a ontract with New Jersey-based Princeton Video Image, which uses a technology that can overwrite advertising on perimeter boards surrounding a sporting event with promotional material for another advertiser.

The genesis of the product is military technology designed to pick out missiles from their surroundings and track and destroy

PVI's proprietary L-VIS system inserts electronic signage, advertising or product displays into live programming with col-our, lighting and motion so pre-cise that viewers will not know it is happening.

There are at least two other providers of similar technology. One is Syman-Vision, a company in France'a Lagardere Group, while the other is a joint ven ture between sports promotion company ISL and Orad, an Israeli defence contractor.

Brown Williams, president of PVI, says there has been limited use of the technology so far in the US'a vast sports advertising market. It has been used for so-called Big Ten college foot ball games broadcast on a sports cable channel and at least once on network television for the popular "Sugar Bowl" annual football game on New Year's

The technology is particularly important for the San Francisco Giants because, Williams says, no advertising is permitted on the hoardings around the stadium. The games will be seen by local viewers on KTVU-TV and on the cable channel, Sports-Channel Pacific.
Advertisers on the newly cre

ated ad space include interna tional brands such as Kellogg, the world's higgest cereal maker, and GTE, the telecommunications company, as well as a local supermarket chain.

Norma Cohen

By improving the molecular on in conjunction with the Univer-Versatile material for better batteries

Thile many of the companies that have been exploring conductive plastics are household names, smaller players, such as Taiwan-based KI Co, have also been

active in the field. In April this year, KI, a high-tech consultancy, said it had developed a plastic material which is both conductive of electricity and readily processible and is moving to commercialise its prototype products. Its findings were esected at a conference in the US

last month. Although the material is nowhere near as conductive as copper, KI believes it has the potential to transform the manufacture of rechargeable batteries and coaxial cables used in telecommunications.

It also has certain defence-related applications. KI has applied for

Laboratories around the world have been struggling to solve the puzzle of how to make ordinary plastic conductive without using any metal. But although the research groundwork had already been done, the goal of physically producing a material that could be commercialised had proven elusive, KI says its material can be

processed much like ordinary plastic - melted, moulded, extruded or powdered - or made into paint or To produce it, the basic plastic material is processed before undergoing "doping" to make it

KI has been discussing possible

co-operation with Microelectronics Technology, another Taiwanese company which has developed technology used for transportable and maritime satellite communications equipment

The battery used in such equipment is heavy and lasts for about an hour, but Chen Chien-yl, KI's chairman, says the aluminium alloy in the battery could be replaced with the conductive plastic, reducing its size and weight and increasing battery life.

Receotly, Chen demonstrated a prototype one-volt rechargeable battery made using the plastic. Based on this simple model, a one-volt battery could be produced which is the size of a credit card or even thinner, he says. Such a battery could eventually replace the normal nickel metal hydride rechargeable battery. It would be more powerful, recharge faster and produce no heat as well as being

lighter, says Chen. He also demonstrated how an ordinary piece of transparent plastic sheet, such as that used for an overhead projector, could be made conductive by thinly coating one side with conductive plastic "paint".

Similarly, he showed how paper He says such conductive paper, or a conductive tape made from the coaxial cables, widely used in telecommunications.

Laura Tyson

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after the eccentric modern fashion, the Jeu de Paume, overlooking the Place de la Concorde, is still a most beautiful gallery. Modern art looks very well in it and, with a couple of exceptions, this latest show, Un Siècle de Sculpture Anglaise, taken piece by piece, is shown to great advantage, with the larger pieces no less impressive outside in the

But any curated and thematic show should surely be something more than the sum of its parts, and we know we are in trouble the moment we find the sculpture anglaise of the title given in the English version of the handout as "British". Such sleight of hand might fool the French but not us. Surely some mistake, we might say, and when we read the list of artists represented, from Epstein to Anish Kapoor, we begin to wonder quite whose mistake it is.

A fashionable but facile show

British sculpture has not been given its just deserts at the Jeu de Paume, argues William Packer

Council's own literature as the most ambitious ever mounted at major survey of British sculpture of the 20th century to be seen in Paris. But it has been chosen and curated by a Frenchman, Daniel Abadie, the director of the Jeu de Paume, very much as a personal exercise, hence no doubt the insensitivity of anglaise and the partiality and critical wilfulness of the selection. Here then is a wonderful opportunity squandered. We can only ask how it was that he was allowed to get it so wrong.

For wrong it is. It begins with Epstein and a single piece, the "Rock Drill" torso (1916) set so high in the entrance lobby as to be The show is glossed in the British easily missed in the bustle for tick-

ets. It alone represents the sculp-ture of the 1910s and '20s which the the Jeu de Paume, and the first student Henry Moore, just back from the wars, found so stimulating. Epstein, expatriate American and Jewish outsider, is at least included, but there is nothing of the expatriate Frenchman, Gaudier-Brzeska, nothing of Gill, Dobson,

The show proper starts indeed with Moore - with a sidelong giance to Barbara Hepworth and Ben Nicholson, in his dubiously sculptural persona - in the 1930s. Thus again is the myth perpetu-ated, in which Moore himself connived, that the story of Modern British Scalpture begins with Henry Moore. It is not to deny Moore's central importance, but

nd so the show goes on in much the same partial and tendentious way, which would not matter if Abadie was only saying at each point that this is what he liked, or what interested him. He mysteriously gives as Eduardo Paolozzi's collages of the 1940s and early '50s, then jumps to his abstract assemblages of the 1960s. There is nothing at all of his grotesque figuration of the 1950s, nothing of his fellow Scotsman, William Turnbull, nothing of Reg Butler, Armitage, Dalwood, early Caro, Meadows or Chadwick -

after Henry Moore. For the 1950s, it is only Renry Moore.

Paolozzi making the new abstractsculpture - no Tucker, Scott, Hall or Panting. In the 1970s it is only Flanagan, Long, Gilbert & George and Michael Craig-Martin, in the 1980s Deacon, Cragg, Woodrow and Kapoor, in the 1990s Gormley, Rachel Whiteread and Damien

Now not for one moment do I say there is no case to be made for showing any one of these artists, either collectively or singly. But to

rather to enhance it, to insist upon the context out of which he emerged.

nothing in short of that post-war throw them here together so casulative context out of which he emerged.

nothing in short of that post-war throw them here together so casulative ally serves neither them nor us, nor there was life in British sculpture the cause of British sculpture.

after Henry Moore. For the 1950s, it ... This is a facile but above all a fashionable show. British sculpture

Into the 1960s and again there is in its successive generations since only Phillip King to suggest that the war has been of continuous there was anyone but Caro and interest abroad, the one field in which we might reasonably claim a sustained international pre-eminence. It has been a success fostered over many years by the British Council, and quite right too. But we have also seen the development of a curiously self-sustaining cycle. Why, we ask, are our sculptors so often shown abroad, rather than our painters? Because there is so much interest in them, comes the answer. Why is there so much interest? Because they are so well

known. And why are they so well known? Because we have shown them so often.

But there is one further twist to it that might explain if not excuse Daniel Abadie's myopia and short memory. Those in whom there is such interest are only those who have been so assiduously supported, and shown and shown again. The interest turns ont to have a very narrow focus, which this show at the Jeu de Paume could hardly fix more sharply. And what was being done for Moore and Hepworth long ago is still being done for Caro, Long, Flanagan, Deacon, Gragg, Gormley, Whiter-ead, Hirst. Good luck to them, but there are so many others too, who have worked to the rich, broad field of British sculpture.

A Century of English Sculpture: Galerie Nationale du Jen de Paume, Paris 1, until September 15; spon-sored by UAP Assurances and presented in association with the British Council.

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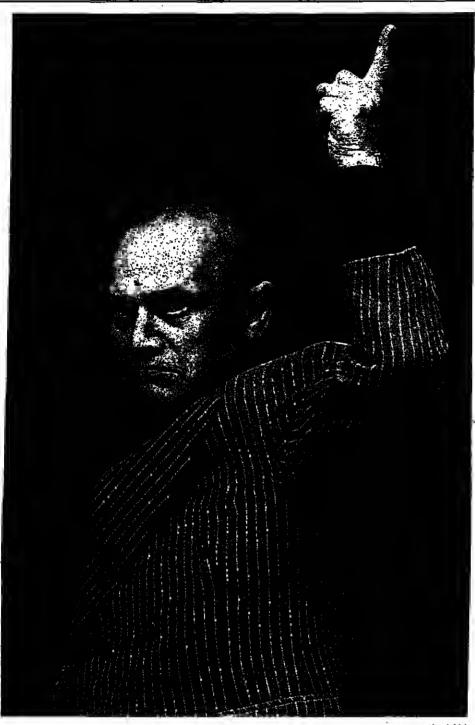
rant and rave

Confess yourselves wondrous malicious/Or be accused of folly.

he bad boy of British theatre is back and his latest prodoction is a bit of both. "Berkoff as Coriolams" yells the bold, white-on-black hanner emblazoned across the entrance to the Mermaid Theatre, but that is only part of it. He hes also designed and directed this production seen last year et the West York-

It is impossible not to edmire Berkoff's staging. In terms of the abundant physi-cal skills of his company, he plays to strength, Eight highly drilled actors in black-shirts and jackboots play everything from the rioting Romans to the Volscian warriors with minimal costume changes and to maximum effect, drawing on rigorous mime, freezefreme and stylised action. The bold, cold fight sequences have a visceral charge and the stark simplicity of their conception and execution is hugely impressive. The sudden shift in space when the Volscian guard line up against David. Henry's Menenius by springing to a perfect diagonal across the geometric marbled floor has great dramatic sim-

Paradoxically, thet simplicity bedevils the characterisa tion. Detail and individuality are lost. The actors are so busy declaiming, you rarely get the sense they are listening to one another. At times, the language is so heavily underlined with action, it is as if yoo are watching a foreign-language musical soundtrack. The deci-bel count is so high that the language is too often flattened through over-emphasis. Berkoff never allows the text to breathe, which means that even when yoo are impressed by what you are witnessing, you admire it, rather than



A dazzling armoury of vocal mannerisms stymie his physical prowess: Steven Berkoff as Coriolanus in his own production

ment. A charismatic, crophaired, sharp-suited figure factions. Berkoff's portrayal of the title role looks like an enraged cross between the Royal Opera House public relations supremo Keith Cooper and its conductor Sir Georg Solti. Not that this London-vowelled bully ever of Faith Brook's steely aristo-

this production of understate- cratic Volumnia. The swoops and snarls, rants and roars in his dazzling armoury of vocal mannerisms stymie his physical browess and his overwhelming, sneering rage is curiously inexpressive. You feel the actor's physical tension and intransigence, not the

> Like Iago, Tullus Aufidius is one of Shakespeare's showstealing roles. True to form, Colin McFarlane ecizes the

opportunity with a markedly still physical presence and a blessedly quiet authority. His sudden burst of anger at Coriolauus's capitulation to Rome ls genuinely chocking. So much so, that you realise what you have been missing the rest of the evening.

David Benedict At the Mermaid Theatre, Lou-

They were in a surprisingly reverential mood when he appeared at Wembley Arena on Saturday night. Perhaps they could not see him. Surrounded by a dozen musicians, the spotlight refused to shine on the tubby man shrouded in black. As a less than mesmerie mover he likes it that way. You had to fasten on the voice - that

great, deeply honed mix of Guinness and honey - to catch don EC4 (0171-236 2211). · the Man.

Ballet/Clement Crisp

Picasso recreated in Nice

native programming. Today, when most mixed beliet bills look as if they are prime displays of chaos theory, the example of Jean-Albert Cartier is salutary. For years - as director of the Nancy Ballet, then of the Theatre dn Châtelet, then as administrator of the Paris Opera Ballet, now as director of the Nice Opera - he has put together evenings where a theme has been illuminatingly

A Massine triple bill last year restored a endous Rite of Spring to the stage. A recent Ashton evening gave French audiences a rare chance to understand our founding choreographer. Now a programme of work decorated by Picasso includes another coup: a first chance in more than 70 years to see the Cuadro Flamenco set as it was intended to be. The effect of the evening, as I saw on Friday, is intoxication for the eyes as well as delight

at the balletic acumen displayed.

Picasso's involvement with ballet, not least because of his first marriage to the Diaghilev dancer Olga Khoklova, was vivid and came at key times in the history of the Ballets Russes. In Parade of 1917, and Tricorne of 1919 - both in the Nice programme - we see stage decoration as central to the balletic image. The two managers in Parade, the quintessential Spanish landscape and the prodigies of local costume in Tricorne, are the most potent guides to the world we enter.
In the scrupulous Nice revivals by Sus-

anna della Pietra and Enrico Sportiello, the ballets look as good as when I first saw them in Massine's own productions, and the proportions of the Nice Opera stage admirably suit their action and shape. Both are focused, in visual elements as in choreographic text, and the Nice troups dance them with a clear appreciation of their strong flavours. (Our local versions of Tricorne have had a distinctly Bognorout-of-season air.)-

an Morrison, OBE -

no, not OBEse Bald-

ing Eccentric: Ulster's

greatest gift to world



Jose Martinez in 'Le Tricorne'

The presence of Jose Martinez as a guest from the Paris Opera is an undoubted bonus; his Chinese conjuror in Parade is nicely enigmatic; his Miller in Tricorne, a -role he has danced with great success in Paris, has the youth and the taut rhythmic sense, the electric shape to every step, which is essential for the role, I have not seen a better interpreter since Massine himself. A welcome, too, for Tamara Rojo, e guest from the Victor Ullate Ballet. She is lovely, she plays with tremendous charm and not a little wit, and the role lives as I have not seen it since Violetta Elvin brought it to life in the late 1940s. From the Nice dancers, in both these Massine works, a strong sense of ensem ble, and the sort of lively playing that is needed if the old repertory is to survive:

there is nothing jaded or predictable here. For the Cuadro Flamenco, Cartier has adopted Diaghilev's manner with the original staging, as well as the Picasso design. In 1921, Diaghilev had to fill out his programmes for Paris and London, and decided to show a troupe of Flamenco dancers as a very "different" novelty. In Seville he saw, and recruited, a ravishingly beautiful girl, to whom he gave the stage name Maria Dalbiacin, and told his manager to gather a group of gypsy dancers around her. Unpredictable, and including one street beggar without legs and a dwarf, they gave his manager hell.

Anguished telegrams to Diaghilev include
the words "Ramirez has lost his wits" "nasty disposition" - "they all repeat all dotty". But arrive they did, and they appeared in a setting by Picasso which showed the interior of a little theatre, with boxes on either side occupied by a couple of Spanish beauties.

This decor Cartier has had brilliantly re-created, and has invited Cristina Hoyos to bring her troupe to dance in it, with their own versions of the dances that were originally shown by Diaghflev. The result is splendid in every way. The set is charming, red and gold and lovingly conceived by Picasso as a view of a small stage: he painted some of the original by hand. The dances sit splendidly within it - how good to see Flamenco in a more ordered frame and Mme Hoyos (on blazing form at the first performance on Friday) and her danc-ers provide a disciplined but far from predictable display. The gamble of reviving this long-lost set, and restoring its theatri-cal life, has been handsomely won. A final salute for the orchestral playing in Tricorne and Parade: Bruno Ferrandis drew admirable interpretations from the Nice Philharmonic. Mme Hoyos' musicians and singers were tremendous.

This programme will tour in Portugal and Spain during the next month.

Pop/Antony Thorncroft Van the Man

music has been honoured by the British Empire. Signifi-He seemed happy, one of the crowd, with no obvious angst cantly, she was not acting on from the recent break up of his personal whim. Van Morrison will collect his gong because romantic attachment, although he is the people's choice - his fans petitioned in his favour by the one new song "Here I am again, back on the corner again", suggested he carried some ecars. For the rest be cruised through an hour long set of old blnesy favourites,

> section and Georgie Fame, coolly, on keyboards. There was little Celtic mysticism on show; much bar room merriment. He even finished trying to bring a small, intimate, situation to a big arena" he explained, which means

that the band joked a lot

concert version of this musical by

Blazer, Taina Elg, Debby Shapiro Gravitte, George S. Irving and

Michael McGrath; Wed 7pm, Thu -

Sun 8pm, Sun also 3pm; from Jun

museum's permanent collection of

20th-century American art. Divided

more than 200 paintings, sculptures prints, drawings and photographs,

the exhibition provides an extensive

overview of the art of this century; to

19 to Jun 23

■ PARIS

Tel: 1-212-570-3600

An American Story: a

chronological survey of the

among themselves and the audience did their best to join It was an oddly detached per-formance, with none of that tortured gut-renching that his fans love, but a genial, dashedoff turn by an old pro. He even sacrificed to the Gods of Pop

with a heartfelt version of

James Brown'e "Its a man'e Morrison is hooked on rock history. He shared Wembley, totally unnecessarily, with an icon as old as Brown, Ray Charles, who answers to the age of 65. For a long time it

was a disaster. It took ages for Charles's crew to set up, and then we were treated to an old fashioned band show, with tiered musicians and a tedious girl vocalist.

Finally, smiling fit to bust, the blind trouper was led to his ing suddenly took off. Charles still delivers. It was all the old favourites, from "Georgia" to "Busted", but the voice is as earthy and droll as ever, and he shakes his body like an electric marionette.

Touring with this cheerful old ham may explain why Van Morrison has discovered fun. But you can have too much entertainment and when, at approaching midnight, Ray called the chorus girls on stage, it was time to leave the old un's to it.

At Wembley Arena tomorrow, then to Manchester (Fri), Birmingham (Sun), and Newcastle

INTERNATIONAL

No-one is going to accuse

BERLIN

EXHIBITION

Bröhan-Mu Tel: 49-30-3214029 Wasserweiten. Das Motiv des Wassers in der Kunst des Jugendstils: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. The display includes

paintings, porcelain, and works in

metal and glass; to Sep 15

Steatsoper unter den Linden Tel: 49-30-2082861 Staatsoper unter den Linden: with conductor Antonio Pappano perform Mascagni's Cavalleria Rusticana and Leoncavallo's I Pagliacci. Soloists include Plowright, Pa w, Kammerloher and Botha; 7pm; Jun 19, 21

COPENHAGEN

CONCERT Tivoli Concert Hall Tel: 45-33 15 10 01 Tivolis Symfoniorkester: with conductor Walter Weller and bess Thomas Quasthoff perform works by Mahler and Beethoven; 7.30pm; Jun

DRESDEN EXHIBITION

Albertinum Tel: 49-351-4953056 Theodor Rosenhauer zum 95 occasion of the 95th birthday of the German landscape and portrait painter Theodor Rosenhauer. The display includes some 30 works. 12 of which come from the private collection of the artist: to Jun 19

EDINBURGH

EXHIBITION National Gallery of Scotland Tel: 44-131-5568921 ■ Awash In Colour: Great American Watercolours from the Museum of Fine Arts. Boston: this exhibition presents a collection of over 50 watercolours from the museum. The display includes works by Winslow Homer, Edward Hopper and John Singer Sargent; to Jul 14

Edinburgh Festival Theatre Tel: 44-131-5296000 La Travlata: by Verdi. Conducted by Stephen Clarks and performed

by the Scottish Opera. Soloists Include Clare Rutter, Richard Coxon, Jonathan Summers and Helen Lothian; 7.15pm; Jun 19, 21

■ LEIPZIG CONCERT Tel: 49-341-12700 Das Paradies und die Peri: by R.

Schumann. Performed by the

Gewandhausorchester and the Gewandhauschöre with conductor John Nelson. Soloists include S. okoski, A. Vogel, B. Fink, H.P. Blochwitz, M. Krumbiegel and P. Lika; 8pm; Jun 20, 21

LONDON

CONCERT Purcell Room Tel: 44-171-9604242 Jane Manning and Sybil Michelow: performance by the soprano and mezzo-soprano, accompanied by planist Miriam Brickman, flutist Philippa Davies, viola-player Rivka Solani and baritone Simon Vaughan. The programme includes works by Gershwin and Senator, 7.30pm; Jun

DANCE Royal Festival Hall Tel: 44-171-9604242 Cinderella: a choreography by Michael Corder to music by Prokofiev, performed by the English National Ballet; 7.30pm; Jun 19, 20. 21, 22 (also 2.30pm)

Tel: 44-171-9304832 Leonardo da Vinci: One Hundred. Drawings from the Collection of Her Majesty The Queen: this exhibition includes preparatory sketches for paintings such as the 'Adoration of the Magi' and the 'Last Supper', designs for equestrian monuments, war machines and costumes for court entertainment; to Jan 12

OPERA London Coliseum Tel; 44-171-8360111 La Bohème: by Puccini. Conducted by Alex Ingram and performed by the English National

Opera, Soloists include Anne Williams-King, John Hudson and Roberto Salvatori; 7.30pm; Jun 20 Barbican Theatre Tel: 44-171-6388891

 Richard III: by Shakespe Directed by Steven Pimlott and performed by the Royal Shakespeare Company. The cast Includes David Troughton; 7.15pm; Jun 20, 21, 22

LYON

CONCERT Auditorium Tel: 33-78 95 95 95 L'Histoire du Soldat: by Stravinsky. Performed by the Orchestre National de Lyon with conductor Gérard Lefebvre and namator Moshe Leiser; 2.30pm; Jun 19

■ MADRID

EXHIBITION Fundación Collección Tel: 34-1-4203944 From Canaletto to Kandinsky: Masterpieces from the Carmen Thyssen-Bomemisza Collection: this exhibition features a selection of about 90 works from the Baroness's private collection; to Sep 6

■ NEW YORK

CONCERT Avery Fisher Hatt Tel: 1-212-875-5030 Tony Bennett: benefit concert for the Babias & Children's Hospital; Carnegle Hall Tel: 1-212-247-7800 Louisiana Purchase: a full-length

CONCERT .

Maison de Radio France Tet: 33-1 42 30 22 22 Orchestre Philharmonique de Radio France: with conductor Marek Janowski and planist Pierre-Laurent No.8, Takemitsu's Requiem for Strings and Schoenberg'e Piano Concerto; Spm; Jun 20 DANCE

Théâtre National de l'Opéra -Opéra Garnier Tel: 33-1 42 66 50 22 Ecole de Danse Opéra National de Paris: perform Balanchine's Western Symphony to music by Kay

and Lifar's Le Chevalier et la. Demoiselle to music by Gaubert; 7.30pm; Jun 19, 20, 21, 22 EXHIBITION Musée du Petit Palais

Tel: 33-1 42 65 12 73 Irving Berlin, performed by The Carnegie Hall Theatre Orchestra led Albrecht Dürer. Qeuvra gravé: exhibition of woodcuts and engravings by Albrecht Dürer (1471-1528) from the museum's collection; to Jul 21

Festival de Musique Française -Musique en Sorbonne Tel: 33-1 42 62 71 71 Whitney Museum of American Art Festival de Musique en

Sorbonne: annual classical music festival taking place at the Sorbonne University in Paris. This year the festival is devoted to the Spanish composer Manuel de Falla, on the occasion of his death 50 years ago; to Jun 25 OPERA

Théâtre de l'Opére Comique Tel: 33-1 42 44 45 46 Carmen: by Bizet. Conducted by Lawrence Foster and performed by the Opéra Cornique. Soloists include Katarina Kameus and Luca Lombardo; 7.30pm; Jun 19, 21

■ VIENNA **OPERA**

Wiener Staatsoper Tel: 43-1-514442960 ● Don Carlos: by Verdi. Conducted by Fabio Luisi and performed by the Wiener Staatsoper. Soloists Include Andrea Gruber, Nina Terentjewa, Samuel Ramey and Luis Lima; 6.30pm; Jun 19, 22

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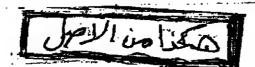
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And so to Lebed

Yeltsin needs the general's help to build on his first-round election win, says Chrystia Freeland

ike General Kutuzov, the fat, slow-witted warrior credited by Tolstoy with defeating Napoleon's armies because "he was one with the Russian people", Russian President Boris Yeltsin has once again shown that he has the best political instincts in the country.

Elsewhere, there would be nothing spectacular about an incumbent candidate who. with all the machinery of the state working in his favour. managed to beat his nearest opponent by less than three percentage points and was forced to meet him again in a second round of voting. But in Russia. which has lost half of its economy and most of its empire under Mr Yeltsin's stewardship, the president's narrow lead over Mr Gennady Zyuganov, his communist rival, in Sunday's ballot is a remarkable political comeback. When the election date was

set at the beginning of this year, some of Mr Yeltsin's closest political allies publicly warned that Mr Zyuganov was unheatable. After five years of turbulent political and economic change, which had lowered incomes and shortened life expectancy, opinion polls showed that Russians, like their eastern European neighbours, were ready to swing back to the communists. Most surveys put Mr Zyuganov far abead of the president.

Yet Mr Yeltsin - a hardliving, 65-year-old grandfather who suffered two heart attacks last year - has danced, joked and flag-waved his way back into the hearts of millions of Russians with a frenetic round of campaigning over the past four months. It has included everything from doing the twist with mini-skirted teenagers to presiding over a military parade from the solemn perch of Lenin's mausoleum.

But Mr Yeltsin has not yet campaigned himself on to the pages of some fledgling Tolstoy. His slight edge is a signifleant achievement, but he has not yet won the war.

Observers ranging from the US ambassador to Russian and western investors - who pushed share prices up yester-



Three front-runners: from left, Boris Yeltsin, Alexander Lebed and Gennady Zyuganov

day - are betting that Mr Yelt-sin's margin on Sunday will translate into a clear triumph against Mr Zyuganov in a second round of voting in the next three weeks. But some Yeltsin aides have warned that the president cannot afford to rest on his laurels.

"It would be wrong to limit ourselves to victory reports," Mr Yuri Baturio, the president's adviser on national security, warned yesterday. "There have also heen set-

One of the greatest dangers, Mr Baturin and other members of the campaign team say, is that the president risks becoming a victim of his own success. Over the past few weeks. Mr Yeltsin's political hlitzkrieg has left no corner of Russian life untouched. The campaign has reached from the chande liered reception rooms of the Kremlin, where waiters are under orders not to offer vodka to the president, to the nation's airwaves, which are so dominated by Mr Yeltsin that even football commentators implicitly plug the president in lulls

between goals Presidential staffers fear many of the country's 105m voters will be so exhausted by the saturation coverage of Mr Yeltsin that they may not show up at the polls for the second round.

'Many of Yeltsin's supporters begin to reason along the following lines: 'Boris Nikolaythis reason there is hardly any need to go and vote'," warns

The president's men are taking voter fatigue so seriously that they are trying to move the second round vote to the middle of the week from the traditional Sunday.

Mr Yeltsin's strongest chance of holding the attention of Russia's weary voters, and regaining the momentum he had huilt up earlier this month, would be to seal a bold strategic alliance with the new man of the hour, Mr Alexander Lebed, the retired general who won third place and a powerful new role as kingmaker in

Sunday's voting. Mr Lebed, a moderate nationalist who has pulled away many votes from Mr Vladimir Zhirinovsky, the flamboyant xenophobe of Russian politics, has been firmly anti-establishment on the campaign trail. He has railed against "the bandits" who rule the country, and argued that Mr Yeltsin and Mr Zyuganov represent two faces of the old, unloved communist But Mr Lebed's open lust for

power - he told television viewers on Sunday night that ha was destined to rule Russia could make him open to the offer many of Mr Yeltsin's senior allies are urging the Kremlin leader to extend: Mr Lebed met Mr Yeltsin yesterday, and leading pro-Yeltsin officials, including Mr Victor Cheroomyrdin, the prime minister, have hinted that an important post could be reserved for him in a new Yelt-

sin government. The problem for Mr Yeltsin is that some members of his entourage, especially husiness-men, might oppose the adop-tion of Mr Lebed; as an outsider with a reputation for getting things done. Mr Lebed might actually act on his campaign pledge to root out government corruption.

Now comes the tricky time for Yeltsin. He has to reach out and show the contours of his new government and make a deal with Lebed, but the hig question is: will his camarilla [clique] allow it?" says Mr Peter Schulze, Moscow director of the Friedrich Ebert Foundation, the German think tank.

At a time when Russia is deservedly celebrating its first democratic vote for a national leader, such fears serve as a reminder that even if Mr Yeltsin is re-elected in the second round, his triumph will hardly be a victory for the westernstyle political and economic freedoms he seemed to promise when Russians first selected him as their leader in 1991.

Instead, as the US diplomat Thomas Graham observed last autumn in a much talked about article on Russia, a Yeltsin win would be a triumph for the occasionally fractious but ultimately allied Kremlin clans which rule Russia today. To keep the peace between these powerful insiders Mr Yeltsin will need to remain as wily as Gen Kntuzov, even after the

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), a malk letters editor@fl.com : Translation may be available for letters written in the main international languages.

Eurosceptic's 'calculation' based on | Hospitals a nonsensical piece of arithmetic

From Mr Derek Prog MEP. Sir, Philip Stephens in his as usual – percipient article, "Put it to the vote" (June 14), said that the Eurosceptics' crystallisation of the Europe debate into one of "In" or "Out" would cause them "to produce all sorts of spurious

statistics and assumptions ... They have, of course, been doing this for some time. Their allegation that what Britain originally joined was only a free trade area is just one of the most glaring examples of their factual errors.

There was another example in the same issue of the FT: Prof Minford's "calculation" that "net UK contributions to the Common Agricultural Policy and inflated food prices

cost about £10bn a year". What a nonsensical piece of arithmetic! The net contribution to the CAP is of a different genus from the level of food prices. In the first place, the net contribution can be calculated with reasonable accuracy: the CBI, among others, has done so and given us the figure of £2.1bn for our total net contribution last year - not just for agriculture but

As for food prices, Prof Minford ought to know very well that a credible calculation of what food prices would have been if we had had genuine free markets for food in Europe and elsewhere is impossible, given the large-scale intervention in agricultural

for everything.

policy hy governments in all industrial countries. Calculations based on prices on small residual free markets - the so-called "world

markets" – are meaningless. Doubtless, as Philip Stephens says, we shall be getting much more of the same (some of it. from people who ought to know better). Is it because they have such a poor case that the Eurosceptics pnt forward such outrageous nonsense?

Derek Prag. chairman. London Europe Pine Hill. Digswell, Welwyn, Hertfordshire ALS DAQ, UK

cost of imports - in other

exports or income terms of

dehts up to 200 per cent of

exports are acceptable. If we

assume a debt service ratio

(interest and amortisation) of

10 per cent, this would mean

that 20 per cent of export

earnings are pre-empted for

debt servicing, and thus not available for financing

urgently-needed imports.

Finally, one must also

of the ample World Bank

reserves would endanger the

triple A credit rating of these

that the coming G7 summit in

Paris will constructively deal

The real agony is not that of the World Bank, as the

article's title suggests, but rather that of the poorest

Hans Singer, -Institute of Development

University of Sussex.

Brighton, BN1 9RE, UK

Studies.

with these problems.

question the contention that a

use of proceeds from sale of a modest portion of IMF gold or

It also seems highly

words, the purchasing power of

optimistic to assume that total

and private finance

From Ms Janet Salmon. Sir, The Private Finance initiative will not work in the UK National Health Service because it attacks the core of a free, publicly funded service based on medical need and not one's ability to pay. The government has cut £400m of capital spending on hospitals, but the PFI is so complex that, while millions of pounds have been spent on submitting bids, no new hospital contract has been signed.

The Labour party is sitting on the fence as usual. While Harriet Harman, shadow health secretary, states she would "discourage the signing of such contracts", because it ties the hands of future governments. Gordon Brown, the shadow chancellor, is making no commitments on funding new hospitals until he has seen the books. Neither the taxpayer nor the local community is consulted on whether they want their local hospital rebuilt with private finance. Both are unaware of the potential ramifications on access to services and waiting

times for operations. The government demands that health authorities should explore the use of private finance before public funds can be considered. The result of this policy is decaying hospitals, increased bureaucracy and increased interest charges to borrow money as a private rather than a public organisation.

Janet Salmon, 43 Montague Road, Richmond, Surrey TW10 6QJ. UK

Modification

From Ms Victoria Andrews. Sir, You described Ms Sheila Masters as "arguably Britain's leading woman accountant" (June 15/16). The description gender since it is not gender! accountant's ability. If the description is to be qualified, a field of professional interest would be appropriate.

100

\ × -

Victoria Andrews. 12 Gayton Road,

Facts of life The real debt relief agony is suffered by the poorest still painful experience countries, not World Bank

Sir. On June 10, you published three letters in response to my article on why EU membership is vital to this

country. I am delighted I have provoked further discussion on such a crucial issue. I wrote the article from the head as well as the heart. As the vice-chairman of a multinational company employing 22,000 people in the UK, I know our membership of the EU is fundamental to our

future economic success. As chairman of the Confederation of British Industry's Europe committee, I also know the husiness community strongly agrees with me. CBI policy is subjected to rigorous consultation within the membership, across all types and sizes of firm, in every region. If they didn't think it, I

wouldn't have said it. I was not indulging in Eurospeak, nor am I even remotely anxious to join a gravy train of any description. All I was doing was pointing out the facts of life. Apparently, there are some people for whom this is still a painful experience.

Niall FitzGerald, vice-chairman. Unllever, Unilever House. Blackfriars. London EC4P 4BQ, UK

From Prof Sir Hans Singer Sir, Robert Chote's article World Bank agonises over debt relief" (June 10) raises some interesting issues, but

also some serious doubts. In the first place, one may mestion the whole approach of providing a package of hurden-sharing between bilateral and commercial creditors on the one hand and he multilateral creditors

World Bank and the International Monetary Fund) on the other hand. The present subject under debate is multilateral debt relief. A good deal of recent bilateral aid has de focto served to enable countries to service their multilateral debts - a House of Commons committee has already expressed serious concern at this situation.

This does not mean that raising the Naples terms from 67 per cent to 80 per cent, or even to the 90 per cent suggested by the World Bank and IMF, would not be a good

Leaving this aside, one can also question the tying of the total debt relief package to the growth rate of export earnings of poor debtor countries. What seems relevant is not

the rate of increase in export earnings, which is under dispute between the World Bank and IMF, but the ratio of export earnings to the unit

two institutions. This depends on the full support and by gender guarantees from the big financial powers rather than their stock of gold or their balance sheet. It is to be hoped

should not be modified by which determines an

London NW3 1TX, UK

Interview • Peter Drucker

An iconoclast with ideas

The management theorist speaks to Richard Donkin



Peter Drucker has reached where he has the time to reread books. He

is now reading Jane Austen and William Thackersy, and finds Austen's economy and elegance with words instructive for his own writing. "It's a very good antidote to modern sloppiness and language corruption," he says. The dissemination of com

nlex ideas in simple prose is a lifelong passion for Drucker, the Viennese-born writer, who has already secured his niche in business history as the tather of post-war management thinking.
Drucker himself rejects the

"guru" label. With more than 20 management books to his name and an early career in newspapers, he prefers to be known as a journalist and writer.

For many business leaders across the world, however, he remains the doyen of modern management theory, not so much because he can lay claim to being the founder of any particular concept - such as "husiness re-engineering" or "total quality management" hul because he has demonstrated a rare ability to apply common sense to the analysis of management challenges and their solutions.

Today, at the age of 87, he is still writing, still teaching and still thinking. He believes the medium-

sized company is going to inherit the earth and that the corporate giants are "doomed to extinction". Drucker also thinks managers still hava much to learn, often in fairly hasic skills. "The one thing that most managements are least proficient in is the management of currency," he says. Most management people I know still helieve that the Bibla begins with the words: 'In the beginning God created



stable exchange rates'." He is openly scornful of those who have rewarded themselves for executing downsizing operations with salary rises, bonuses and stock options. "This is bluntly immoral," he says. "There's an old saying among surgeons that the worst surgeon is the one who ampntates before making the diagnosis and that's what downsizing, in most cases, has been."

But Drucker has always been far more than a management writer and consultant. He draws on subjects as diverse as Japanese art, English literature, medicine and taxonomy. An admirer said he was "one of the last encyclopaedics".

Drucker's seminal work, The Practice of Management, published in 1954, distilled many influential ideas on a broad range of topics, including the role of marketing and the importance of clear corporate and management objectives. It also stressed the need for a short chain of command, predating the much later trend

towards flatter hierarchies by more than 25 years. In this and a later hook,

Tasks, Responsibilities, Prac-tices, published in 1973, Drucker laid down five hasic tasks for the manager, whom he described as "the dynamic, life-giving element in every business": to set objectives, to organise, to motivate and communicate, to measure and to develop people. The management hooks

cemented a reputation that had already been established in his 1946 study of the workings of General Motors, Concept of the Corporation, the first detailed analysis of a company's operations.

He later concentrated on such qualities as innovation, entrepreneurship and the growth of the "knowledge worker", but he remains primartly associated with a rationalist view of management and organisations.

Although a naturalised American, his accent and his approach to work remain beavily influanced by his

uphringing in the austere atmosphere of Austria between the wars. Drucker's father was at one time the chief economist in the Austrian civil service. In spite of his professorships

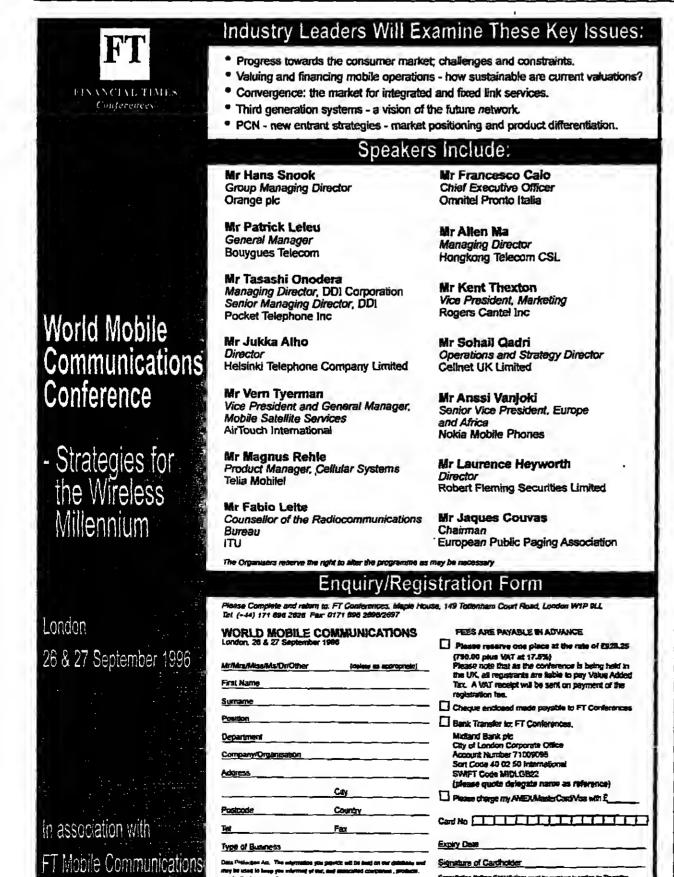
in the US - he was professor of philosophy and politics at Bennington College, New England, from 1948 to 1952, then professor of management at the Graduate School of Business. New York University. and now professor of social serences at Claremont Graduate School in California - he still insists that he is "not academically respectable"

This is partly because he refuses to play by the rules of academia. For example, he scorns footnotes which are virtually a prerequisite for US academic publishing. I have no use for foomotes. One uses footnotes only as a cross reference and if one uses somebody else's thoughts, otherwise footnotes are a pedantic game. Only now in my very old age has academia been willing to accept me," he says.

Even in his work, for the governments of the US. Canada and Japan, he says he remained an outsider. "I have always been politically incorrect. I have never belonged to the outer circle, let alone the inner circle. No, I am an outsider and I am a loner. I have always done my own work."

This is the way that Drucker prefers to see himself. He titled his autobiography Adventures of n Bystander. Today, working much of his time from his home in Claremont, which he shares with his wife, Doris, he continues to display an iconoclasm undiminished by his years - and to harness a s intellect to a helief in hard work that has enabled him to write prolifically throughout his life.

His approach, he admits, may be considered old-fashloned. But he can live with that. He says: "I was old fashioned all my life."



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FINANCIAL TIMES

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No euphoria over Russia

Perhaps the best thing about the first round of Russia's presidential election is the mere fact that it happened. After weeks of recrimination, with the contenders accusing one another of contemplating fraud on a massive scale, the voting and counting procedures have been acknowledged by all sides as broadly fair.

While President Boris Yeltsin undoubtedly made ruthless use of the advantages of incumbency, and his domination of the airwaves, it has to be recognised that the selection of Russia's next head of state was a matter of open and vigorous contest.

As for the result, here again things could have been a great deal worse. Mr Gennady Zyuganov, the neo-communist who defends Stalin'a record and trades openly on nostalgia for the Soviet regime, failed to top the poll, as seemed very likely until a few weeks ago. Mr Vladimir Zhirin-ovsky, the ultranationalist rabble-rouser, fared worse than expected, and has been denied tha

chance to act as king-maker. Mr Yeltsin, who in western eyes represents the bope but not the certainty of continued reform, has a good chance of building on his 35 per cent score to win the sec-ond round. But be will have to work hard for his victory, and compromise with some of his rivals. That too seems a just verdict on a man who has launched Russia on the road to liberal capitalism but must also take tha blame for unleashing the war in

But while the worst has been avoided, western governments should certainly not be carried away by euphoria. Despite the personal rivalry between the leading candidates, there is a degree of convergence in their attitude to

the US and western Europe. It is a brand of nationalism that lies somewhere between the rejentless enmity of the cold war and the pro-western euphoria that followed the Soviet collapse. While both Mr Yeltsin (in practice) and Mr Zyoganov (at least in theory) acknowledge the merits of doing business with the west, they are both inclined to view Russianern relations - particularly in the field of European security - as an adversarial, zero-sum game.

The emergence in a pivotal role of General Alexander Lebed, who spent his formative years fighting US-backed rebels in Afghanistan, is unlikely to make the policy of Russia's next administration any more pro-western. And the poor performance of Mr Grigory Yavlinsky, the only candidate who has consistently supported reform, is a reminder of how much the liberal segment of the alectorate

All this suggests that whatever coalition emerges from the deal broking that will take place over the coming days - and a Yeltsin-Lebed tandem now seems the

most likely - Russia will continue to need careful handling.

The first challenge facing the West is whether or not to admit Russia as a full member of the Group of Seven industrialised nations. Mr Yaltsin already attends the Group's discussions on political issnes, but not the G7 economic summits. Given the fragile state of Russia's economy, it would be premature to offer full G7 membership now. It would also be naive to expect that Russia, whoever its president, would show goodwill in return. The Russia that emerges from these elections is going to be a more prickly. nationalistic partner, whoever

Performance pay

The prospect of pay increases of 30 per cent for backbeach MPs and of still more for government miniscratis is being met with smug anticipasts in law or banking or with pation in the UK House of Commons. The Top Salaries Review Board, which met yesterday to finalise its proposals, is expected to recommend the awards before the end of the month. The MPs. uniquely authorised to decide their own pay, will then vote on the package before leaving Westminster for their leisurely, three-

month summer break. Even before the precise figures are announced, MPs are carefully rehearsing their self-justificatory arguments. By international standards, their basic pay of £34,000 a year is low. At home, it has fallen behind that of compara-ble professions. Politics needs to attract talent. The recommendations of the board represent an independent judgment. And so on. Needless to say, there is no men-

clutches of company directorships. Nor apparently do they see a contradiction in obliging other public sector workers to finance even small pay awards from productivity gains (usually job losses) and attaching no strings to their own, much larger increases.

There is a case for paying MPs more but only if their remuneration is tied closely to performance Those who insist on pursuing outside careers should not expect extra subsidies from the taxnaver Those willing to play an active role in parliament should be rewarded accordingly. There is one more thing. Any award should be self-financing, paid for by cut-ting the numbers of MPs and ministers alike. Even at present pay rates too many of them are expensively under-employed.

Buying loyalty

J. Sainsbury's decision to launch a nationwide loyalty card means all the big British supermarket chains are either offering such cards or experimenting with them. The trend has important lessons for all those involved in consumer

goods marketing. Sainshury has been pushed in this direction, obviously reluctantly, by the astonishing commercial success of Tesco's Club-card, which helped push up market share by 1.6 percentage points in the past year.

In one sense, these cards are no more than a form of genteel discounting, a more sophisticated version of the Green Shield stamps of the 1960s.

Compared with straightforward price competition they offer some advantages, not least by making it harder for customers to compare rivals net prices directly. But they are still expensive: Sainsbury reckons it will have to raise turnover by 3 per cent to break even on its new loyalty scheme, a figare which it may struggle to achieve now that such promotions

are general. But the real potential of the loyalty cards is the opportunity they offer to move the aupermarket chains decisively towards relationship marketing, the Holy Grail in consumer goods circles. Because customers must present their cards each time they shop, the supermarket chains are able to capture huge amounts of data about what and bow often their

customers buy.
In principle, this allows the chains to tailor promotions accurately to the customers most likely to be receptive to them, get-ting them off tha treadmill of inefficient and expensive coupon promotion. It holds out the prospect of easy diversification into other

vices - as Tesco's nascent bank account demonstrates.

The customer data banks, if properly exploited, also become a weapon in the information war between supplier and retailer. Big manufacturers of fast-moving consumer goods heve been attempting to cut out the middle man - at least in information terms - by building huge customer databases. and promoting directly to shop-pers through the mail. Heinz has been particularly aggressive, shifting its marketing spending sharply in this direction.

The jury is still out, however, on just how effective the manufacture ers' relationship marketing efforts will be. Retailer loyalty schemes may well offset any advantage that the manufacturers might gain, not least by giving super-market own brands the same sort of support. The success of the own brands owes a great deal, after all, to the strength of the supermarkets' existing relationships with their customers, a firm foundation on which loyalty schemes can

The supermarkets now set a benchmark that marketers in all consumer industries must meet. The challenge is threefold: to establish the same strength of brand relationship that the supermarkets have achieved to derive useable information from tha relationship; and then to turn it to lasting commercial advantage. both in the core business and out-

The supermarkets have leapt up the first two steps of this ladder. They are working hard on the third. Other businesses will need to follow suit. After all, as Tesco bas shown, loyalty achemes increase the rewards for being big

Thinking the unthinkable

As more voices are raised in support of UK withdrawal from the European Union, Martin Wolf considers the price of membership

The unthinkable is being thought. It is not just being thought, but being thought oot loud. Would it be so dreadful for the UK to leave the Euro-

pean Union? The people of Bristol would not ask themseives whether the advantages of staying in England outweigh the disadvantages. They define them-selves as English. At some point the people of the UK may similarly identify themselves as Europeans first and British second. That time is certainly not now. They can still ask of the EU the question Scots are asking of the UK: what is in it for

The question can be answered only with difficulty, for three reasons. First, economists are unable to quantify with precision the economic effects of membership. Second, many of the potential effects his in the future. Third, the benefits of staying in can only be assessed against the costs of being outside. But the latter depend on the accommodation that could be reached between a departing UK and the rest of the EU.

Nevertheless, one point can be made with confidence. The most made with considence. The most dynamic region - east Asia - contains no economically significant preferential trading arrangements. Free-trading Hong Kong's real income per head in 1994 has been estimated by the World Bank at \$23,100, above that of any member of the FU except time I present time. of the EU, except tiny Luxembourg. Privileged access to a large market is, in short, not the prime determi-

nant of an economy's success.

That is determined, instead, by protection of property rights, quality of education, flexibility of markets, thrift, entrepreneurship, open-ness to trade and levels of taxation. Membership of the EU can have decisively altered the UK's prosperity only if it had an impact on one of these. Since the economy has grown at an average annual rate of less than 2 per cent since 1973, there is hardly much to explain.

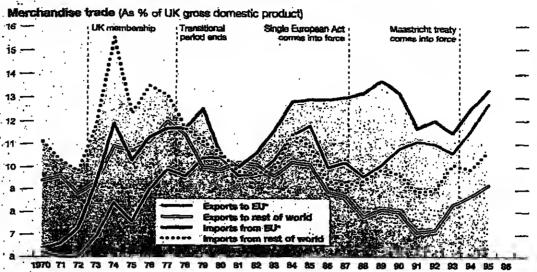
How might the EU have made an impact? The starting point for seri-ous analysis of the net economic benefits of EU membership is an appreciation of what it is: a trading bloc that has combined liberalisa-tion with discrimination.

To the extent that it has liberalised trade it should increase competition and so promote growth. To the extent that it discriminates against outsiders, it will reduce competition and growth. The latter can have damaging long-run effects. UK membership of the EU followed upon imperial, later commonwealth preference. Privileged access to these undemanding and relatively undynamic markets damaged the global competitiveness of British businesses. Meeting global competi-tion is painful; refusal to do so sui-

The broad distinction between the liberalising and discriminatory aspects of a trade bloc has a counterpart in the distinction between trade creation and trade diversion. Trade creation occurs when, for example, cheaper German products replaces costlier UK ones. Trade diversion occurs when more expensive German products replace cheaper Japanese ones.

Although these concepts measure only static gains and losses, they are at least a useful starting point. Thus, a country such as the UK gains from its own trade creation though it can achieve the same ben-efft by liberalising unilaterally. It of imports from the rest of the

Trading places: the EU's rising share in UK trade



Merchandise trade (1994) Services trade (1994)

normally gains in the short term from trade diversion by its partners in its favour. It also gains from its partners' trade creating liberalisation if it is the world's most competitive supplier. It loses, however, when It must substitute high-priced

imports from its partners for

cheaper imports from elsewhere. A study of the costs of EU membership from the Campaign for an Independent Britain points with alarm to the deterioration of the UK's trade balance with the EU in manufactures, from a surplus of £385m in 1970 to a deficit of £8.5bn in 1990.* This is economically illiterate: it treats a bilateral trade balance as a measure of the benefits of trade; and it ignores the possibility that the increased imports from the rest of the EU were economically beneficial.

These authors could be right, however, if the rising imports from the EU represented trade diversion - in other words were at the expense of cheaper imports from elsewhere. For this reason, it is wrong to jump from the growing propensity to trade with the rest of the EU to the conclusion that this trade must be mutually enriching. The question is whether it represented costly trade diversion or beneficial trade creation.

One way of answering is to see whether the rising imports from the EU displaced domestic output or world to UK gross domestic product has oscillated, partly because of the finctuating price of oil. But, at 10.7 per cent in 1995, it is close to the average between 1972 and 1973. Meanwhile, the ratio of imports from the EU has tended to rise, from 9 per cent in 1973 to around 13 per cent. This suggests there has been trade creation, with imports from the EU displacing domestic

In his recent analysis of the balance of advantage of UK membership of the EU, Professor Patrick Minford of Liverpool University focuses attention on the two areas where trade diversion is most likely to be significant.** These are agriculture, where the replacement by EU produce of cheap imports from countries such as New Zealand works against UK interests; and foreign direct investment into the UK, partly inspired by the desire to avoid EU trade barriers, which works in its favour.

Prof Minford calculates the net cost of the common agricultural policy by taking the cost to consumers of paying higher prices from food, subtracting the gain to UK farmers and then adding the loss in real income that results from the reduced consumption of food. At today's prices, he estimates the net cost of the common agricultural policy at £6.5bn for a "typical year", a calculation that assumes it raises the price of food some 40 per cent above world levels. This year, however, the surge in world prices bas virtually eliminated this cost.

To the cost of the common sgricultural policy, Prof Minford adds the net cost to the UK of its contributions to the EU budget, which is £3.4bn in 1995-96, though it was less in previous years and could be much less in the near future. The assumption that the UK's net contribution has been largely due to the cost of administering the common agricultural policy is not unreasonable. This produces an aggregate cost of £10bn, or 11/2 per cent of GDP.

On the other side of the ledger is trade diversion in the UK's favour. Prof Minford's argument is that prices of consumer durables - particularly cars - are about 30 per cent higher in the EU than they could be under fully free trade. This will allow a low-cost country like the UK to serve as a base for producers from outside the EU. The cost of this inducement to inward investment will then be borne by consumers in the rest of the EU.

According to Prof Minford, this process of production and trade diversion will be allowed to continue only so long as exports from the UK displace imports from outside the EU. If they begin to hit production elsewhere in the EU, there will be a backlash. Up to that point, however, the UK could benefit to the tune of £9bn a year. To the rest of the EU, this will not be an additional cost, he argues, since it

will merely transfer to the UK excess returns previously enjoyed by exporters from elsewhere.

He concludes that the loss on agriculture more or less equals the gain on foreign direct investment. t suspect he exaggerates both effects. But this depends on whether his 29bn a year assesses the economic benefits captured by the UK from inward foreign direct investment,

something nobody knows.

The EU is, however, far more than just a trade arrangement. Prof Minford ignores the single market altogether but focuses on two other aspects: economic and monetary union (Emu) and EU social policy. Both, he argues, could be a disaster for the UK if it were to sign up. The decision to ignore the single

market may make sense. The UK was already relatively liberal in many areas covered by this programme. The additional market access has not been that large. The single market may create great new opportunities. It does not appear to have done so vet.

s for the costs and benefits of monetary union, Prof Minford argues that joining Emu could destabilise the economy. Since the UK is far from fully integrated with its neighbours, that ought to be true if the comparison were with an optimal domestic policy. But the actual choice is hetween two imperfect policies. More important, mooetary policy probably has only modest effects on the long-term performance of an

That leaves another great impon derable - the social chapter of the Maastricht treaty. The difficulty here is that its consequences are unclear - it is merely a set of enabling clauses. Prof Minford asks what would happen if the worst policies of other member states were imposed throughout the EU. What, for example, would happen if the minimum wage were set at twothirds of the average wage, the power of trade unions in the UK returned to 1980 levels, and social costs on employers raised to German levels. The result, he estimates, would be a reduction in UK output of up to 20 per cent and an increase of up to 3m in unemploy-

This must be a colossal exaggera tion. But his concern is legitimate. The labour market policies of the rest of the EU have imposed enormous costs, raising unemployment to some 11 per cent. If the UK were a member of the social chapter, it could not be confident that it would not be forced to adopt similarly

What is the bottom line? The net economic impact of EU membership is probably not that large. Provided the UK can keep clear of the dottier aspects of EU labour-market policy. that should remain the case. Membership of the EU seems to be a price worth paying for a voice in the institution organising the future of the continent. But anyone who thinks membership of the EU guarantees prosperity is fooling himself. In or out, it is the efforts and the skills of the British people that will largely determine bow well the UK economy performs.

Brian Burkitt, Mark Baimbridge and Philip Whyman, There is an Alternative: Britain and its Relotionship with the EU. Campaign for an Independent Britain.

** Patrick Minford, Britain and Europe: the Balance Sheet, European Business Review, New European and Centre for European Studies.

OBSERVER

Israel's flimsy be detrimental to foreign investment. cahinet

■ Benjamin Netanyahu, israel's prime minister elect, is finding that assembling a cabinet is not as easy as he thought. Technical competence, he let it be known, was to be the overriding criterion for appointments. And he promptly offered the job of finance minister

to Jacob Frenkel, central bank governor, and former university of Cincago professor: But the proposal has caused such sharp divisions within his own party that laked insiders were saying last night that the offer was being withdrawn histead, they st, it will be extended instead suggest it will be extended instead to Dan Meridor, one of the party's

It seems that Netanyahu reckined without the four princes of Likud, Dan Meridor, Ariel Sharon, Ze'ev Benjamin Begin (son of Memichem) and Moshe Katsay have mode clear that he cannot expect to dole out the best jobs to ple outside the party, and then to fob them off with such relative measir crumbs as science, technology, tourism, and

The business community, which might look askance at the aborted attempt to appoint Frenkel, would nonetheless live happily with Meridor. It fears the alternative would be Sharon, and that his hardline nationalistic stance might

and the second of the second o

Russian roulette

Moscow is buzzing with rumours about what inducen the two leading presidential candidates are offering to the gruff-voiced Alexander Lebed, in order to win his support in next month's second round of voting. Boris Yeltsin is reportedly dangling a newly-created post co-ordinating the so-called "power ministries", such as security and

defence. The word is that Gennady Zynganov has gone one better, suggesting Lebed could be prime minister. More cynical observers, however, believe the decision may boil down

to a simple actuarial calculation. Yeltsin is 65, Zyuganov is 51. Lebed, they suggest, does not want to hang around too long before having another crack at the top job - so he'll plump for Yeltsin.

Difficult choice

For one person, at least, it makes little difference whether Boris Yeltsin or Gennady Zyuganov ends up leading Russia.

Vytautas Landsbergis, the stolid, goatee-bearded musicologist who led Lithuania to independence before being voted out by former communists, ironically enough - is unremittingly pessimistic

about Russia's future. Over a frugal breakfast of orange juice and biscuits at his country's London embessy yesterday, he lamented that Yeltsin was no longer the democratic hero who

had rushed to the Lithuanian parliament's defence when it came under attack from Soviet tanks in January 1991. On the contrary, he asserted that Yeltsin's foreign ministry seemed bent on "revenge for Russia's losses in the Baltic. But Sunday's poll contained one small drop of satisfaction for Landsbergis: it gave a bloody nose to the right-wing Vladimir

Zhirinovsky. He it was who once suggested bringing the Baltic republics to beel by blowing nuclear waste at them with giant fans. Not a nice man.

Disunited nations Ructions at Geneva's World

Trade Organisation - this time. nothing to do with trade tariffs. The WTO'a 450 employees are striking tomorrow in protest at the failure of member countries to de-link their pay and conditions from those of the United Nations. WTO member states decided

before the organisation was set up (in January 1995) that it would have no formal ties with the UN. But, oddly enough, they have repeatedly put off the de-linking

WTO staffers suspect that cuts in the UN's budget could lead to cuts

in their own pay and pensions. already eroded over the past few years due to pay freezes and the fall in the US dollar - in which salaries are calculated under UN rules - against the Swiss franc.

"We're attached to a system that is spiralling downward for reasons that have nothing to do with the WTO," says Gretchen Stanton, chairman of the staff council. So there will be a work to rule mainly a ban on overtime - next week, and again at the end of July.

Renato Ruggiero, director-general of the 121-member world trade body, backs de-linking. Surely he can persuade those key member countries - including the UK, US and Germany - who are foot-dragging?

Très bon-bon

■ A rare instance of sweetness and light in the Paris metro. The Paris Regional Transit Authority is dishing out chocolates to passengers. Some customer loyalty scheme, perhaps?

Not really. It's aimed at incorrigible smokers who cannot desist. Smoking is forbidden in tha metro but many smokers ignore the no-smoking signs on platforms. So rather than bully the recidivists, the authority aims to

persuade them with chocolates. Next thing you know they'll be giving free slimming lessons to help travellers get through the

"Financial Times

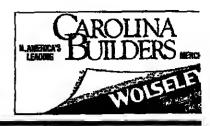
100 years ago Total Wreck of a Cape Liner

Brest, France: Last night the Cape Liner "Drummond Castle", bound from Cape Town to London, struck a rock off the between Ushant and the mainland. Three minutes after striking, the liner went down. The Maritime Prefecture has received a telegram, which has been communicated to the British Consul, stating that 250 persons including pass and crew were on board. The latest telegram from Le Conquet. a small port on the Atlantic coast opposite the Island of Molene, states that all on board perished except three. Six bodies have been washed ashore on the Island of Ushant

50 years ago Burma War Losses

The terms of reference for a Claims Commission to register and assess claims for property lost or damaged in Burma as a result of the war is announced by the Burma Office. The Commission will arrange for the registration and assessment of claims for damage to land (including buildings) and goods, and in certain cases, losses in Burma arising from war circumstances. It will also deal with claims arising under war damage legislation of the Government of Burma.

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Group would co-ordinate economic policies | Loyalists

France wants G7-style club for single currency

By Peter Norman in Bonn

France yesterday proposed that the governments signing up to the European single currency should form a club to co-ordinate hudgetary and economic policies that could function in a way similar to the working of the Group of Seven among the world's richest industrial nations.

Mr Jean Arthuis, French finance minister. said the third and final phase of European eco-nomic and monetary union, due to start on January 1 1999, required an "economic policy pole" to be made up of economics and finance ministers that would stand alongside the planned European central hank to ensure

economic stability. Mr Arthuis believes Emu countries would need to co-ordinate closely on issues such as imple-menting hudgetary policy and setting budgetary targets, exchange rate policy, the analysis of the business cycle and eco-nomic policy. However, policy co-

beef ban deal

imposed the ban last month on

political grounds, as a result of

consumer fears over BSE, rather

than objective facts.
In today's framework docu-

ment, the Commission will pro-

pose that the embargo should be

lifted in stages, conditional on

full deliberation by EU scientific

and veterinary experts.

Mr Werner Hoyer, Germany's deputy foreign minister, said:
"De-escalation is the name of the

game. Obviously Mr Major will

need a face-saving device at the

pooling intelligence on drug traf-

time" allow US recording compa-

nies to enter into co-production

US film studios could engage

in co-production elther in the

making of motion pictures or TV

China bas closed 15 plrate factories, including three

"nnderground" plants, and would further strengthen

Customs efforts to stop the export of pirate products would

he enhanced and co-operation

with US counterparts extended.

Verlfication procedures to

protect anthentic products would become a feature of the enforce-

enforcement procedures.

fickers and organised crime.

Continued from Page 1

ventures.

dramas.

Continued from Page 1

while equipped with a "high political authority and democratic legitimacy", need not be

institutionalised.
"But to be effective it must be politically visible." the minister said. Citing the example of policy co-ordination among the leading industrialised nations, he added: The G7 is after all not defined in any treaty and as an institution has no specific responsibility in the legal sense of the word. Yet

no one can deny its capacity to act and its political visibility." Mr Arthuis's suggestion adds a new element to the debate about policy making in an Emu which initially will be made up of only some of the European Union's 15

In his speech, prepared for delivery yesterday in Bonn, the French minister referred to the idea put forward last year by Mr Theo Waigel, German finance minister, for a "stability council" of Emu members: part of Mr Waigel's plan was for a European "stability pact", limiting budget deficits. Mr Arthuis's ideas went further by encompassing other areas of policy.

They appeared to echo French concerns that the planned Euro-pean central bank, which according to the statutes of the Maastricht Treaty is committed to price stability and has more independence than the Bundesbank, might prove too powerful an agent of policy when ranged against the finance ministries of the various Emu member states. Under the treaty, these would be operating at a national level.

Officials at the Bonn finance ministry said they would be interested to know more" about the French ideas.

The Bundeshank yesterday declined to comment. In the past it has made clear that it would resist moves to limit the power of the European central bank but would welcome action among Emu member states to ensure that their financial and economic

EU spells out | Power struggle delays formation of Israeli cabinet

By David Gardner and Hene Prusher in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister-elect, yesterday completed negotiations on the parliamentary majority needed to support his new rightwing government, but he failed to announce a cabinet because of a power struggle inside his Likud

Florence summit."

Mr Rifkind signalled yesterday that the UE was willing to lift its block on an agreement to set up Europol, the new police agency While he mustered the required 61 of 120 seats, top ministerial portfolios such as finance and housing remained undecided as Mr Netanyahu, elected on a hawkish policy towards the Middle East peace process, sought to establish his authority. **US and China**

Tense negotiations continued throughout the day as he appeared to be trying to diminish the influence of two leading Likud figures, principal among them Mr Ariel Sharon, the extreme rightwing former army commander whose mediation belped launch Mr Netanyahu as

the sole candidate of the right. By mid-afternoon, the new government's majority was secured with the entry of the Russian immigrant party led by Mr Natan Sharansky, a former Soviet dissident. But the full configuration of the cabinet is not expected

until this afternoon. The tussle for portfolios was fiercest over the bousing ministry - which oversees settlement policy - and which at one stage yesterday appeared to have gone to Mr Sharon. In the last Likud government, he was the architect

LOW

HIGH

of settlement expansion and a policy aimed at changing the demography of Jerusalem to create a permanent Jewish majority. At one point, it appeared Mr Sharon might be left out of the government, with Mr Netanyahu

eeping the bousing ministry for

himself but under the operational control of a religious fundamentalist party. There was confusion, too, about who would get the finance ministry. Yesterday morning, the post looked certain to go to Mr Jacob Frenkel, governor of the

Bank of Israel, a move already

heing warmly welcomed hy israel's business community.

By last night, however, Likud officials said Mr Netanyahu might have to how to party demands to give the post to Mr Dan Meridor, a former justice

minister and potential rival Earlier in the day, Mr Netanyahu published the agreed programme of the new government, stressing a commitment to radical economic reform and reiterating his uncompromising terms for peace with israel's Arab neighbours.

The programme rules out a Palestinian state, pledges to expand Jewish settlements in the West Bank and retain complete Israeli sovereignty over occupied Arah east Jerusalem, as well as deny the right of return of over 4m Palestinian refugees.

Netanyahu unveils reforms to liberalise economy, Page 7 Observer, Page 13

FT WEATHER GUIDE

warn of resumed violence in N Ireland

By John Kampfner

Northern Ireland terrorism threatened last night to spiral after the largest Protestant para-military group warned it had put its operatives on full alert.

The prospect of a resumption of violence by loyalists, whose political representatives have been among the strongest voices of moderation in the unionist community, will alarm London and Dublin.

The Ulster Freedom Fighters said it had come to the "considered view" that the Irish Republican Army was planning to return to violence in the province for the first time since it declared a

ceasefire in August 1994.
Since breaking the ceasefire in February, the IRA has focused its hombings entirely in Britain, culminating in Saturday's blast in Manchester, in which more than 200 people were injured.

Yesterday Mr Gerry Adams, president of the IRA's political wing Sin Féin, said: "I want to make it clear that Sinn Féin will not be scapegoated. We were not responsible for the bomb explosion. In fact our peace strategy remains central to our party."

The Irish government meets today to reappraise its relationship to Sinn Fein, with ministers casting doubt on the ability or readiness of Mr Adams to stop the violence.

British ministers have made clear that a simple statement by the IRA reinstating a ceasefire will no longer suffice. Later this week the cabinet is expected to set hardened conditions for Sinn Féin's participation in the current all-party peace negotiations. In its statement, the UFF said

t had alerted its personnel to an "imminent" return to violence by the IRA in the province. While remaining "prepared for all even-tualities", the UFF said it was fully committed to the peace process and called on the IRA, even at this late stage, to reinstate its ceasefire. Mr Gary McMichael, leader of the Ulster Democratic Party, which is linked to the UFF, said: "I think it would be wrong of me to be anything hut honest - we are at a critical point in the peace process.

He added: "We must use all power and responsibility and all influence that we have to try to ensure that there is not a degeneration into full scale conflict.

Mr Billy Hutchinson of the Progressive Unionist Party, the second loyalist party taking part in the all-party talks, said: "Every time an IRA bomb goes off we are a step closer to a resumption of ovalist violence."

Loyalist terrorism in the early 1990s was at least as hrutal as the IRA's and was seen as instrumental in persuading Sinn Fein that its ends would be best pursued hy peaceful means.

Ireland's elusive peace, Page 8

THE LEX COLUMN

Copper troubles

ource: FT Edul

Much remains murky in the saga surrounding Sumitomo Corporation's massive copper trading losses. But in the rush to allocate blame, it is important to distinguish between the two quite separate issues at stake. The first, genuine worry is that the

London Metal Exchange may have heen slow to react to the activities of Mr Yasuo Hamanaka, Sumitomo's former chief copper trader. It is not, of course, the LME's concern whether or not Mr Hamanaka was losing money. The worry is that his losses may suggest he was trying to prop prices up artificially. This may or may not have been the case - hut if it was, it was certainly the LME's job to stop him. Nonetheless, whatever his motives, Mr Hamanaka does not seem to have been doing that well either. Even if his

need doing that wen either even it is activities may have helped keep the price implausibly high, they still appear to have been disastrously unprofitable. The hedge funds, apparently betting that prices would fall, clearly did not believe Mr Hamanaka's strategy was sustainable. The separate worry relates to con-

trols within Sumitomo itself. This is nothing to do with the LME, or any other regulator, it is essentially the shareholders' problem. Investors have every right to complain if, as the company claims, it did not know that a key employee was running up such buge losses. But they should lay the blame at the doors of the manage-ment, not regulators. Although Sumitomo Corporation is loosely allied to Sumitomo Bank, it is not itself a bank; It could have gone to the wall without posing anything like the systemic risk of a banking collapse. So investors in Sumitomo Corporation - and trading houses like it - cannot expect to be mollycoddled by regulators in the way banking investors are. They need to ask their own tough questions.

Lufthansa

In yesterday's profits warning, Luft-hansa whinged about competition from subsidised state-owned European rivals. The criticism has some merit, hut it is not the full story. Lufthansa is facing competition from private-sector airlines, notably British Airways, too. Over-capacity and price-cutting are, indeed, a feature of some airline markets. But Luftbanea is hardly innocent; its capacity in the first four months of this year was 5 per cent higher than in the comparable period of last year. Meanwhile, its costs are not sufficiently low to respond to the price-cutting; so it has had to cede particularly fierce in the cargo mare ers' funds of just DM340m are support-

Share price relative to the Dax Index

ket, where it is the market leader. It is still unclear just how bad things are. If an unconfirmed press report that Lufthansa made an operating loss of DM200m in the first five months of this year proves correct, the situation is bleak. Given that the airline lost DM49m in the seasonally poor first quarter, that would imply a sharp deterioration in April and May when business normally picks up. But even if the report proves exag-

erated, as most analysts believe, Lufthansa will have its work cut out to earn decent levels of profit. The company was yesterday stressing its determination to cut costs by DM1bn over five years. But competition is intensifying and rivals are cutting their costs too. British Airways, for example, which is roughly the same size as its German rival, is planning cuts of £1bn over three years. Lufthansa will need

Deutsche Babcock

Shareholders in Deutsche Babcock, the German boiler maker, must bave steam coming ont of their ears. After six years of fruitlessly trying to turn around one of the country's biggest engineering groups, Mr Heyo Schmiedeknecht, chairman, has warned of yet more restructuring costs and a DM300m operating loss this year.

Like many German companies, Deutsche Babcock is struggling with weak demand at home and an uncompetitive currency abroad. But the group has added to its problems by buying loss-makers such as textile machinery maker Moenus and by partly floating off profitable subsidiaries such as Flender, which manufactures gears. Worst of all, the group

ing annual turnover of DM8bn and a cash last autumn of DM160m include DM3.5bn of customer advance Despite that, Deutsche Babcock b ambiflously taken on hig cootracts, did Bremer Vulkan and Klockne Humboldt-Dentz, both of which ra into serious trouble earlier this yea

The group's poor financial position is at the heart of its problems, mea ing the pace of internal restructuring is dangerously slow. Disposals, which Mr Schmiedeknecht has been promi ing for months, are difficult because the book losses would erode the cap tal base. And there are no funds expand the core power engineerin business, which has sound technolog-into Asia. Meanwhile, the group seem to have put off potential predators lik Siemens and construction group Pb lipp Holzmann. But without a capita increase, the group's prospects loo

Hollywood

Hollywood is finally waking up to the fact that more does not mean bet ter. The splurge of film-making h recent years has driven up the cost o attracting talent, so much so that some stars can now command \$20m a film. Promotional spending has also shot up, as studios compete for filmgoers' attention. But viewers have been unimpressed. The number of films made in the US last year rose by 9 per cent; the box office take went up only 1 per cent. An increasing number

of films flop after a few weeks,
Disney's decision to halve its production of feature films, following Viacom's cutback at its Paramount studio, probably marks a reversal in the trend. There is, of course, a risk that rivals will take advantage of such moves by attempting to grah market share. But, given Wall Street's unhappiness with Hollywood's profitability, the prospects for a more generalise cutback look good.

The impact on profitability of an industry-wide retrenchment could be dramatic. Given that boosting film production did little to increase the box office take, cutting their number is unlikely to deter film goers. So every \$70m or so not spent on making a film is probably \$70m saved. More-over, in the longer term, if fewer films are made, their average cost could fall There would be less need to shell out millions on marketing to be beard amid the din; stars might even find themselves competing for roles in the best films.

Steel, Page 20

All these securities have been sold. This announcement appears as a matter of record only.

New Issue / April 1996



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Europe today Scandinavia will be cloudy with rainy periods. A

lew breaks ara possible in southern Sweden and Denmark but these will be intersperse with showers. Near gale force winds will occur along the Norwegian coast. The Benelux and the British lales will be rather aurnny in the south but cloud will drift in from the north bringing occasional showers to northern Scotland. France will be sunny and very warm. Spain and Portugal will have more cloud with several thunder showers inland. High pressure will continue to promote sunny and warm conditions over the Mediterranean and the Balkans, but thunder showers are expected over the southern Alps and in western Greece. Eastern Europe will be mostly suriny and warm but the Baltic republics will be cloudy with

Five-day forecast

Scandinavia will remain mostly cloudy with rainy penods. The British Isles will become cooler with patches of rain. Thunder showers will occur along a frontal zona which will become stationary over France, Germany and northwest Russia. High pressure will continua to promote abundant sun across the Mediterranean. A disturbance with thunder will enter south-western Europe on Thursday.

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Lufthansa

FRANCE

New captain steers a steadier course Now firmly at the helm, President Chirac is giving ful to Alain Juppé, his prime minister, in his efforts to re

Now firmly at the helm, President Chirac is giving full backing to Alain Juppé, his prime minister, in his efforts to reduce deficits and strengthen the economy, writes David Buchan

A fiter some months of drifting, tacking and navigating the squalls of last December's public sector strikes. France, undar President Jacques Chirac, has regained a certain sense of direction.

Thera is progress on straightening out the country's public finances, on reforming France's welfare system and the free-spending habits of its patients, doctors, hospitals and drug companies, and on joining the rest of the industrialised world in partially privatising telecommunications and trimming its defence industry to post Cold War proportions. Once it sorts out its public finances, including the awk-

1. 16 mg

or the second

ward system that places 85 per cent of all welfare costs on payroll charges and so discourages employers from expanding their workforces, France can look to its private sector to berald a brighter future. Low inflation, good infrastructure and fairly high reinvestment of corporate earnings in new technology have helped keep larger French companies competitive, reflected in steady trade surpluses with the rest of the world.

With unemployment at 11.9 per cent, there is still no feelgood factor. But prime minister Alain Juppé has promised a five-year tax-reduction plan from 1997 in order to encourage consumers to spend more now and to give his centreright majority a more popular platform on which to fight the 1998 parliamentary, regional

and cantonal elections. Of course, in terms of meeting the Maastricht criterion for getting France's overall deficit down to 3 per cent in 1997 and thereby qualify for economic and monetary union (Emu), the tax-cutting pledga was bighly premature.

France's Social Accounts are really just as modern-Commission has since estimated this year's social security deficit as three times more than tha FFr17bn that Mr Juppé hoped to achieve through his welfare reforms. The Commission warns that the welfare system will probably stay in the red next year. so France seems to have little chance of achieving its 3 per

cent target in 1997. Yet far from falling on thair swords, French ministers and officials seem somewhat laid back, reflecting their country's special position in the Emu

They know that even Germany will have problems in satisfying the Maastricht criteria next year, and believe that as long as Franca's performance is very close to that of Germany's, President Chirac and Chancellor Helmut Kohl (tha German Bundestag per-mitting) might be abla to fudge the criteria for allowing both countries to enter Emu, In the last resort, France is virtually the only country other than Germany which is confident that Emn cannot, in practice,

erman ministers have repeatedly said that a monetary union without France would be too small to make economic or political sense. But the French government does not want to state this publicly for fear of lessening the pressure for reform.

The French find it notoriously difficult to pursue steady, progressive reform. They see themselves as an innately conservative people, who can only achieve reform in sporadic, revolutionary hursts. Bnt, apart from a rooted attachment to their cutsine, their little shops, and the contrasting splendours of Paris and rural France, tha French

minded as other Europeans.

What they do hava, under the 1958 Fifth Republic, is a set of political institutions that make reforms difficult. On most economic and social prob-lems, presidents of the Repub-lic tend to pass the buck to intrinsically weak prime minis-ters who essentially depend on their president's goodwill rather than the support of par-

Govarnments are rarely elected on precise programmes, because political inspiration is left to presidents, not political parties which like parliament itself, are weak. Into this relativa vacuum, unions or other lobby groups, which may have small hut vocal member can easily step in to play a determining role.

In these circumstances, the vague and contradictory nature of Mr Chirac's election platform was hardly surprising. Luckily, Mr Chirac gaullist though he is - has personally papered over some of the Fifth Republic's institutional cracks. He is directly involving himself in reform of the armed forces and the armaments industry; indeed some people might like him also to take the country's overstaffed and unprofitable banking sector in hand.

After taking six months to clear his throat, the president is now giving full support to tha efforts of Mr Juppe to reduce hudget and social security deficits. Now that it is clear that the prime minister is no longer hurting his own rating in the polls, Mr Chirac may well maintain Mr Juppe at his post until shortly before, or just after, the 1998 elections.

He made an impulsive start in defence and foreign policy. He authorised nuclear weapons tests and reacted with hurt pride and diplomatic snubs to



those European countries who dared to criticise them. His EU critics were, Italy spart, the smaller members, and there was an element of hullying in his reaction. But he has since huried the hatchet with these EU partners.

His recent impulses seem

better directed, notably in his speedy involvement of France in the search for a ceasefire in south Labanon, thereby giving it at least a new walk-on part in Middle East diplomacy. In seeking better relations with President Yeltsin of Russia and in hosting Prime Minister Li Peng of China in Paris, Mr Chirac has adopted a more pragmatic line about human rights abuses in those

He also shows greater affinity with the US than any of his predecessors at the Elysée Palace. As a young student, Mr Chirac worked at a Howard Johnson diner and, on his pres-Idential visit to the US last

year, he was prepared to face Larry King on a live TV show. France still sees itself in direct competition with the US in such areas as aircraft manufacture, agriculture, even film making. But the French public, which has never been as anti-American as soma

French leaders have assumed,

has largely gone along with Mr

Chirac's rapprochemant with

The exceptions were a few left wingers who criticised France's return to full participation in Nato meetings after an absence of 30 years.

French officials pay warm tribute to Britain's help in smoothing the way for France's return to Nato and, if it were not for Britain's beef crisis, Mr Chirac's successful state visit to the UK last month would have ended on an even higher note. As it is, be has played a conciliatory role in the beef crisis, which has earned bim some criticism

from consumers and farmers at year. The only negative

But Mr Chirac has devoted most effort to developing the kay relationship with Germany. Within days of arriving at the Elysee last May. he rushed off to see Chancellor Rohl in Strasbourg. His public conversion last October to deficit reductions came after a trip to Bonn. On another trip there last month he and Mr Kohl agreed to step up their contacts by meeting at least

once every six weeks or so. The two men started their Franco-German summit earlier this month in Dijon and then, unexpectedly, continued the next day in Paris. Much of this recent Franco-German "va et vient" is aimed at preventing France's defence reforms from dislocating its military co-operation with Germany. However, new plans for closer defence ties, mada easier by Paris rejoining Nato, are scheduled for the end of this

reactions to this drive for ever-closer relations with Germany have come from the left and right fringes of French

politics. Mr Jean-Pierre Chevènement, Mitterrand's former defence minister who left the Socialist party after he refused to order French troops into the Gulf war, has written a new hook entitled "France, Germany, Let's Speak Plainly". In it he warns against France becoming a "feudal" vassal to Germany, and claims the balance of power between them is too lop-sided for the

relationship to remain harmonious. Few French think of themselves as vassals to anyone. But many would agree that lop-sided relationships can be uncomfortable, and say that this is one more reason why France needs to carry out reforms - at least as rapidly as

IN THIS SURVEY

 Chirac and Juope form a solid partnership Europe demands a

squeeze on welfare spending

 Taxation nettle may be too prickly to grasp Job creation dominates

education debate. page 3 Foreign investment climate becomes warmer Exports boom despita

nuclear test backlash Luxury goods maintain their worldwide appeal page 4 Economy that goes for a mountain ride

 State utilities in the aga of competition Defence policies and arms industry face upheavals The financial sector feels the heat

Production editor.

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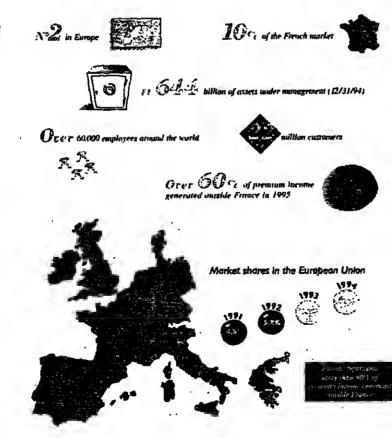
50% stake in Sun Life Holdings while UAP sells its stake in Transatiantic. From now on,

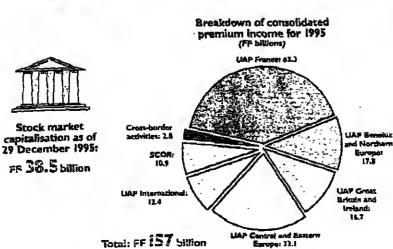
LIAP's three insurance companie in Turkey morge in order to have a solid base to approach Union and Cyprus. in order to offer a better tervice to multinai companies, a group insurance network

is created, with the participation of every . The Group completes its orga-nisation by profit centres through

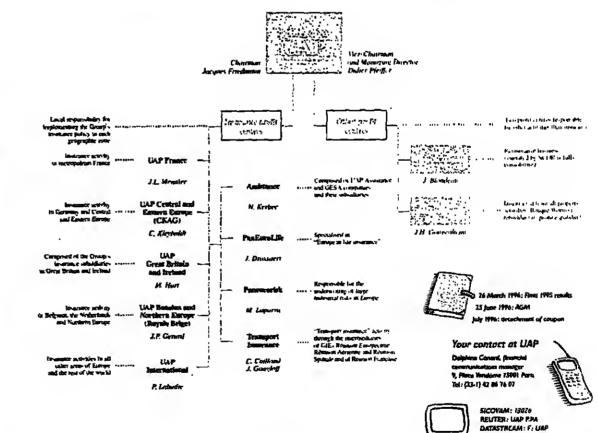
the creation of UAP France, which controls the French operating subsidiaries, and of UAP Holdings, composed of the Bridsh and Irish subsidiaries. UAP Collectives is created to take responsi bility for group insurance business within the UAP France profit centre.

After a public tender for exchange on all the shares of CAIM and Compagnio Financière de Rombas. Compagnio UAP becomes





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shanks to a strict underwriting and policy, the Group has significantly improved

technical profrability. Меспитив, пыпаделент, али The gru steel noticibent under firm control. The ned ratio has cherefore Yet there is still a lot of room for Improvement. la dominant posicion in Industrial insurance and its expertise in group Insurance, will give LIAP the pension fund market

develops in France.

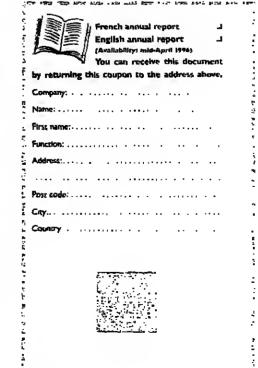
despite in France

and in the UK, the Group has held up well thanks to its subsidiories strengths and so the good performance of its companie n Germany and Belgium.

Distribution I while leaning on its traditional networks expertise, whose cost is continually decreasing, UAP has iniciated a far-reaching diversification of its through training, technological innovation and affances with outside partners, such as the Post Office in Belgium and BNP in France.

organisation by profit rentres. International network to improve profitablity, through morgers and disposals. Moreover, cooperation the Group's geographic reach. for example those with Kemper in the U.S. and

Dai-Tokyo in Japan. In order to benefit from various sidils within the Group and to series of actions has been bunched to develop network synergies: · industrial rules Ité insurance « reinsurance



Three-legged race team

President Chitac and prime minister Juppé may develop an unusually long partnership

Cuder the Fifth Republic no president has kept the same prime minister for a whole some engrear presidential techo and probably few miling involsters. whom have wanted to stay off.

But, after a shirky speti dur-ing the commission strikes, air stion suppernow tooks after durable than most previous prime ministers, Position Ch. or endently accipolating the hippers ion to tanding loy nevand relationship that is professign more harmonious (not a rystory that our call Protestan Thurles de Taubo pal princ minister class thrapiane. stomewer it Mr stuppe is 100.

acune amister at the case of the spitting 1898 gualitations of rections in will almost our rands by healing a different Seat Hat the Part

fine first a shulfly past amount was designed to trim the top-heavy government of more than to mudsters thich Mr Chirale had appointed to repoy many of his presidential election surpoten debis in Sovember Mr dopper me dit challer and thefthe term which also muddel some the members of the most suchlist complof Mr Edocata Astronut. who lost to Mr Chirac

If Mr China had fellower up he Mar 1995 providend lanetor by suffice a snap gartiemental politica didu. Elm. with a new centre who majority in life over an ide the realized his suggestion in the difor furth , leshuilb. But stare in todos in de this the next regsletive election, care not be later than the spring of tions M. Toppe meets to now but the mass of his year onment is try to boost his canpopularity, is bring in newgaultist Ballidurians, to take

sino change in his UDF coalicompartner, and to counter the modest resurrence of the opposition Socialist party

The likelihood of Mr Balladur himself serving in a Juppé covernment is slim, because of hart prior and hard feelings on both tides it is just possible that a munsterial call might come for Mr Nicolas Sarkozy, who was Mr Badadur's sole ma with abusing colef lieutonaut and who his socien championing the need for tax cuts stola the pack benches, Mr happy posted to some of this prossure in late May by pledging to phase to cottle over five

the most inteleuting, and mast owers sabilist addition to the postenment would be Mr Charles Presour He is still a

odes statient in 1997.

heavyweight in the RPR gauliist party, though his reputa-tion for shrewdness suffered in his last year as Mr Balladur's interior minister and presidennal backer.

But his hardline approach on law and order, combined with a populism delivered in an inimitable Marseille twang. has always been rated as one of the traditional right's best weapoos against Mr Jean-Marie Le Pen. The latter's farright National Front won three southern cities in last June's numicipal elections, and is still favoured by opinion polls. Mr Pasqua's experience and links with Corsica might also seem useful if lawlessness on the island were to get worse.

liamentary elections in the



accounted by the repeat beddere. Espaint of mitter Alaha Jeppe is also president of the RPR gaulist party.

immediate wake of his Elysée victory, his relatively few allies within the UDF (which instead of fielding its own presidential

candidate in 1995 opted very largely for Mr Balladur) might well have won control of the centre-right federation. As it turned out. Mr Alain Madelin, a leading Chirac backer who was briafly finance minister until a personality clash with the prime minister ousted him from the first Juppé government, lost his hid in March to replace Mr Valéry Giscard d'Estaing as bead of the UDF. In managing his coalition,

Mr Juppé who is himself president of the RPR gaullists, must now treat with Mr Francois Leotard who beat Mr Madelin for the UDF presidency. It was not much of a contest, because Mr Léotard was already head of the Republican party, a major constituent of the UDF, and had the backing of Mr François Bayrou, the education minister who is also leader of Force Démocrate, another big

component of the federation. Mr Léotard presents a potential problem for Mr Juppé. The UDF president has pledged full support for the government. but he was a strong erstwhile Balladurian and has criticised aspects of defence and tax policy from the backbenches. He is being pushed - by Mr Madelin as much as anyone else into trying to give the UDF, hitherto a loose electoral alliance of disparate parties, a more unitary structure.

Ultimately, it could therefore rival the RPR, particularly if it were also to exploit its European credentials. Unlike the RPR gaullists who find it ideologically hard to link up with other European parties, the strongly pro-European UDF has the right mix of conservative economic policies and centrist social concerns to fit in with European Christian Democrats, and particularly Chancellor Kohl's CDU, indeed, Mr Léctard now prposes regular UDF meetings with the CDU.



In the shadow of the founder of the Fifth Republic: President Chirac walks past a portrait of President Charles de Gaulle

There have been many times in the recent past when the Socialists, too, have been less a party than a tenuous federa-tion of back-biting barons, each with their courant based less on ideology than personality. This bas changed. The decision to hold an open primary election to select their

National Ass	embly
Party	Seats
RPR gaullists	259
UDF centre-right	206
Socialists	62
Communists	23
Independents"	27
TOTAL	577
" mostly on the left.	

1995 presidential capdidate, the very respectable 48 per cent won hy Mr Lionel Jospin in that election, the grace with which Mr Hearl Emmanuelli subsequently ceded the party leadership to Mr Jospin, perhaps even the demise of Francois Mitterrand with his divideand-rule tactics, have all promated more unity in the party. Mr Jospin is consolidating

hls leadership, though it remains - even in France's semi-parliamentary system - a handicap for him to be currently without a seat in the National Assembly; during key parliamentary debates, he has to write articles in the press to make his voice heard. Mr Laurent Fahius, one of Mr Jospin'a old party rivals, acts as the party's parliamentary leader, but that division of roles does not seem to be creating the tension one would have once imagined.

Inflnenced by Mr Jacques Delors, the former European Commission president who like his daughter, Mrs Martine Auhry, sits on the party's national executive, the Socialists have stayed more or less true to the Maastricht treaty they signed for France.

"The main difference from when we were in government is that we don't make a religion of the Maastricht criteria." savs Mr Francois Hollande, the party spokesman. "We don't take them too literally, or believe that monetary union should be delayed if they are not met to the last decimal

point. The Socialists do not quarrel with the goal of reducing France's public deficits, but they dispute Mr Juppe's means of achieving it. They fault the prime minister for having overtaxed France in his first year and now threatening savage cuts in education and housing. while risking a clash with the unions over cutting civil service numbers which would save a mere FFri-2bn in the short term.

After crashing to defeat in the 1993 parliamentary elections, the Socialists bave nowhere to go but upward. Of the nine seats which have changed hands in the 31 hyelections held since the Chirac election, seven bave gone to

the Socialists and one other to a left-wing ally, "At present, our vote is running about 13 percentage points above our 18 percent score in 1995, and this might give us an axtra 100-150 seats in 1998," says Mr Hollande. In terms of tactical voting, the Socialists can rely on their electoral alliance with the Communists, even though forming a government or a programme together, as they did in 1981, is now unthinkable hecause of differences over Europe; like the National Front, the Communists remain

But Mr Hollande is very cautious about forecasting victory in 1998 on the basis of recent by-election results. Thanks to their enormous gains in 1993. the RPR-UDF have many MPs able to wield influence and patronage, while Mr Chirac is also sure to throw himself into the 1998 contest - to ensure be does not spend his last four years in the Elysée cohabiting with the left.

solidly anti-Maastricht.

Public's moment of truth

the huge cost of pensions, health and welfare

The political spotlight has mercasingly locused on France's social security sys-

tima, for two reasons First, French welfare is still 55 per cent hinded by payroll charges rather than times, and the high level of these charges. creates a considerable disincentive for employers to hire more of the countries the job-

Second, social security accounts for a targe clarate of France's overall public deficus which must be reduced to, or very near 3 per cent of FFF10 (5th and a possible

ble that, in the stellal ascurity dollert is not originated at 1997. France will fail to qualify.

The Juppe plan of last Documer was, in fact, more ambitious. It aimed at reducing the neffect of the "general regime" total posed of pensions, family allowances and health insurance) from an estimated FFr60bn for 1995 to FFr17bn tais year and at prodneury a l'Fri2bu surplus in

Six months later, the position looks much werse. The figure for 1964, when it is finally sed this mouth, will be around FF770bit, and this year's deficit for the general regime is now being estimated at around

Unedle unemployment scheme. run separately by employers and unions who, in a rare moment of courage and self-restraint in 1993, raised contriburious and cut benefits.

Curiously, it was not really last December's strikes that knocked the government off course. When Mr Juppé abandoned his attempt to extend a 1993 peasion reform from the private to the public sector, it was a serious blow to his pride, but not to his arithmetic. Putting civil servants on the same pension footing as the rest of France would have produced only minor initial savings to the government.

The main problem is lower welfare receipts from payroll

the offing to reduce as requests for European mon- The only part of the welfare dip in the economy in late 1995 and the subsequent slight rise in unemployment. Further changes in welfare funding are planned. The Balladur government started by shifting a portion of family allowance charges paid by employers on to the state hudget and general

The Juppé government plans the creation of a single, universal health insurance charge which will be levied on a wider revenue base than just salaries. This will spread the hurden more widely, and eventually make welfare funding less sensitive to changes in economic activity as well as less of a disincentive to employ-

But the government claims that 90 per cent of its reforms on welfare spending are intact. Family allowances have been largely frozen this year. though the government is still dithering about whether to relate them more to individual families' incomes or to tax

The main changes relate to tha health sector, one of the world's most extravagant hecause it combines US-style freedom of choice for patients with a high European level of state reimbursement of their expenses. In 1994 health insurance accounted for FFr32hn of the general regime's FFr55bn

• Political control. The

The doctors often seem to compete only in their eagerness to prescribe whatever the patients want

has developed as a series of insurance funds, nominally managed by unions and employers who still finance the lion's share of it. The government has increasingly influenced all key welfare decisions, for the simple reason that it bas hari to plug - either hy direct payment or indirectly by guaranteeing bank loans - welfare deficits. But up to now, the parliament has had no say.

Under a new constitutional amendment, deputles will henceforth set annual targets for welfare spending, including bealth insurance, which the government intends to use to rein in France's free-spending doctors and hospitals. One large union, Force Ouvrière which has long dominated the lministration of bealth insur-



campaigned against what it called "a state takeover", and thus the government decided to let the "social partners" keep much of their co-management role; but it has restored to employers, regarded as more penny-pinching, their parity with unions ers in all the new health institutions it has created.

• Hospitals. France has an average of 1,250 hospital beds per 1,000 inhabitants, compared with the European average of 800. This translates into some 60,000 surplus beds. partly because with more effective care patients can nowadays be sent bome earlier. In future, bospitals will be required to plan and rationalise their husiness under three to five year contracts with new regional bospital agencies. A new National Health Evaluation and Accreditation Agency is to be set up to issue good practice guidelines.

 Doctors. France is not so exceptional, among European countries, in having 180,000 doctors relative to its population. But it has too few in its hospitals (where some 9,000 foreign doctors work), and too many (108,000 in all) in Independent practice. In the latter category, it has a disproportionately large number of spe cialists - 48,000 - compared with 60,000 generalists.

At times, it seems that the only rivalry among this host of doctors is in their eagerness to prescribe almost any treatment or drug their patients want. The government hopes to after more doctors into "non-prescribing" jobs, such as running preventive health clinics in companies or schools. But it also plans to discourage overprescription by freezing fee increases and setting financial penalties for doctors who are too free with their pens".

Doctors, particularly special-

ists who are more opposed to the Juppé reforms than the generalists, have so far paid be turning. scant attention to government. set spending limits.

The first three months of this year showed no sign of the government meeting its 1996 target of containing the rise in health insurance costs to 2.1 per cent (after 4.7 per cent in 1995). But the govarnment

claims that, with a 0.3 per cent decline in April, the tide may

The government also plans to re-launch the scheme of a "carnet medical", or medical record card, so far only distributed to some 45,000 old people. The aim is not just to help doctors and patients. The government also wants to use the card, to be computerised from

cles (which handles, 1hn prescriptions a year) and to keep tabs on doctors who over-pg- Drugs. The pharmaceutical industry feels victimised h the government's demand that it make a special FFr2.5bn

1998 on, to cut out paper work for the bealth insurance agen-

"contribution" this year to closing the health insurance deficit. Il points out that this amounts to a FFr30.000 tax for every job in the industry, and that it already has to pay a special tax on Ita-promotion activities. The government is unrepentant, blaming the drug companies for last year's surge in drug reimbursement costs and for taking no interest in cheaper generic medicines that could belp solve the problem. While generics account for 25-30 per cent of the drug market in the UK and Germany. they represent only 3 per cent

For his part, Mr Bernard Mesure. president of the SNIP pharmaceurical industry asso ciation, concedes that health spending will exceed the government guideline of 2.1 per cent this year, particularly hecause of estimated 7-8 per cent increases in drug prices and doctors' prescriptions. But he is against fixed government controls on what has become the largest pharmaceutical industry in Europe.

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TAXATION: by Andrew Jack

ise men offer 55 pages of advice

Proposals to reform that such a powerful analysis could be drawn together so the rickety tax system abound. but action is constantly deferred

The French tax system suffers from an unusual problem. Everyone talks about reforming it, and most people have ideas about what is wrong with it, but no one seems brave enough to change it.

in early June, the latest indictment of the current state of affairs was submitted to the government and released to the public. The 55-page report "five wise men" headed by Mr Dominique de la Martinière, a former head of the tax service, was a compelling critique of the current situation. It called among other things for an abolition of many of the current complex tax deductions, a simplification and reduction in the number of income tax rates, and a wideranging reform of the charges on companies by both national and local government.

quickly. After all, it was only in early April that Mr Alain Juppé, the prime minister, asked them to set to work, givmg them less than two months to come up with their findings.

But the group's conclusions were strangely familiar to most tax experts. They put forward many proposals which had been made before - most recently last year by another gathering of experts which included Mr Bernard Ducamin and Mr Robert Baconnier, who were both members of the successor committee. The fact is that tax reform is

an intensely political subject. The problem with the Ducamin report was that it was commisstoned by Mr Juppe's predecessor and increasingly vocal political rival, the fellow Gauliist presidential contender Mr Edouard Balladur.

Mr Juppé decided on the day before the de la Martinière raport' was published to announce wide-ranging tax reforms over five years, starting from the beginning of 1997. He provided little substantive detail but had a their list of concessions were chance to pledge tax reductions in an effort to stave off Mr Balladur's increasingly critical calls for rapid cuts.

However, Mr Juppé also left himself with considerable room for maneouvre, stressing that he would in no way be bound by the conclusions of this latest group of experts. Like a number of other pledges including a long-standing one to introduce pension funds, observers are holding fire until whenever the reforms might finally appear.

There has been a long and strong tradition in France of adding new "temporary taxes" - such as last year's 3 percentage point corporation tax rise which become permanent. and of adding new dedoctions while not taking away the existing concessions. All that combined with a tendency towards evasion and avoid-

The maze of deductions has also become increasingly complex to macage. Early this year, ministers announced new measures designed to boost economic growth. High up

small proportion to total govnew tax deductions for those spending on consumer goods. ernment revenues. Over the next few months.

As a result, it is no surprise that the need for fiscal rigour and the perception of the French as "taxpayers" is more abstract than in many other countries. Many of those oo low incomes pay no tax, while even those with substantial revenues ofteo are exempt after claiming a wide range of deductions.

Mr Jacques Friedman, head of the insurance group Unioo des Assurances de Paris and a member of the elite French finance iospector corps, became the latest husiness leadar to associate himself with calls for reform, saying on French TV in early June that one of the key modifications to reduce the highest income tax will reach 45 per cent of gross domestic product.

His arguments are shared by the de la Martinière committee, which called for the upper rate to ha cut from 56.8 per ceot to 40 per cent in line with other European financial centres. It also suggested a reduc-

removal of a large number of existing exemptions.

But income tax is only part of the problem. A high proportion of French government revenues coma from levies on companies, and notably on the size of the payroll. It is a situation which acts as a disincentive for husinesses to hire staff and is paradoxical particularly given the French government's stated pledge to focus on reducing the current very high levels of unemployment.

Separately, the "taxe profes-sionnelle" - levied by a range of different tiers of local government - is calculated on the basis of both payroll charges and capital investment another formula which acts as a disincentive for the creation and expansion of companies. he has little illusions about how far his coorlusions will be

followed. He joked on French after his report radio shortly was published that he expected his recommendations to be "torn to pleces" hy lohby groups and politicians in the coming months, and ultimately



The state of the s

Shopping in St. Germain: texpayers put survivel first

E EDUCATION: by Andrew Jack

Power and poverty of the elite

Unemployment dominates a fierce national debate on the direction of

state education The beauty of the French education system is its ability to turn out an elite of extremely impressive and well trained minds. The curse is the dominance of this small group at the expense of the rest, in a

legacy that can last for life. Encounter a top French business executive or civil servant, and compared with many of their counterparts in other countries, their intellectual prowess, analytical rigour and hreadth of knowledge whether on current affairs. philosophy or poetry - is

More open to question is

tinned tight links with their peers rather than their ability to do the job in hand which explains their contemporary

Look at the technological and scientific advances of French companies and laboratories - in aviation, telecoms, electronics, defence work or drugs research - and their prowess and achievements are undeniable.

But consider the rigidities elsewhere in the workforce, and the concerns of employers about hiring those who have done less well at school and dropped out before completing any form of higher education, and the story is one of which to be rather less proud.

France is currently-undergoing the latest in a regular round of debates and disenssion about educational reform whether it is the legacy of . - notably at the post-school

a backdrop more ominous and private sectors alike. than ever.

Despite President Jacques Chirac's campaign pledges to reduce the "social fracture" in the country, the burden of memployment - to which the educational debate is tightly linked - remains a heavy weight on the government's shoulders.

The government has made great play of the priority. including references to the employment effects of a number of its initiatives unveiled over the last few months including aid for small businesses and shopkeepers, and "zones franches" or deprived urban areas which will offer lower social charges and taxes for companies which locate,

remain or bire staff in them. However, such measures appear marginal at a time of economic downturn, privatisation of large state employers their educational background and university level - against and restructuring in the public

The most recent unemployment figures for April showed

they will launch a series of

"free zones" in troubled urban

areas. Reduced charges for

blumtly puts it, the French sys-

tem "seems to have lost its

elasticity", with income from

taxes oot rising in line with

revenues and economic

growth, and with a jump in

demands for deductions. "It is

as though ... discouraged by

the constraints placed on them

all strategy of conquest in

set to break all records, with

existing projects suggesting

hutions and social payments

By international standards.

France has very high rates of

tax. Yet tha system is also

extremely skawed. Income

taxes are paid by just half of

all households, compared with

some 94 per cent in the UK, for

favour of survival tactics."

[taxpayers] have abandoned

During 1996, the country is

As de la Martinièe's report

employers are on the agenda.

a modest monthly decline of 0.5 per ceot - or a rise of 0.3 per cent under the previous method of calculation including people classified as jobless but who worked for more than 78 hours during the month, But the absolute statistics remain high: 3m or 3.3m

respectively. The burden of such gloomy joh prospects helped explain the degree of support across France for the strikes at the end of last year. It has been one of the driving themes in discussions between the unlons, government and employers since then, including the social summit in December at the conclusion of the industrial action.

Among the most pressing concerns for the government is youth memployment - which led to a "youth summit" con-

vened at the Matismon, the prime minister's office, in mid-June, one month after his pledge that no young person should leave school without some assistance towards training, employment or career

advice. The other topic most widely discussed is to modify working hours in an effort to increase employment - including longer holidays, earlier retirement and most notably the idea of reducing the length of the working week to 35 or

even 32 hours. Yet so far, little concrete has emerged at the national level, and initial plans to make public a formal agreement in June are slipping.

Unilateral measures launched at the Rhône-Alpes regional council by its president, the defence minister Charles Millon, have so far had little positive effect. The employers' federation is

attempting to steer clear of any new legislation, stressing the importance of flexibility in agreements and the additional costs imposed in reducing the working week. Nevertheless, there have

been some plecemeal devalopments. Even the banking sector, which publicly complains about the theoretical labour restrictions imposed in a 1937 decree by the socialist Popular Front government, has found ways to negotiate local accords towards more flexible working and reduced hours.

In the field of education, the government's record is more patchy. Mr François Bayron, the education minister, has come under growing criticism in the last few months for apparent inactivity, or for issuing new plans which strongly resemble others already proposed in the past.

President Chirac's own campaign election pledge last year for a national referendum on education reform appears to have been quietly dropped.

and his minister's priorities were temporarily side-tracked by hnge discossloos tn the Spring about the growing outbreak of violeoce in schools directed at teachers.

Mr Bayron's most important current challenge remains a reform of the university system, including attempts to redesign the courses, change

Baccalaureat is 'world's most monstrous' exam system

the financing arrangements and reduce the very high drop-out rates.

But he ts struggling against a legacy of hngely over-crowded universities, and a fear that has plagued all education ministers in the recent past: the word "sélection", taking away the automatic right of entry into higher education of anyone who has passed the

baccalaureat.

school-leaving exam.

Prace has a long history of taking to the streets to defeat unpopular policies, and no group does so more frequently or with greater effect than university students, who have forced the resignation of previous ministers and abandonment of numerous proposals for reform in the

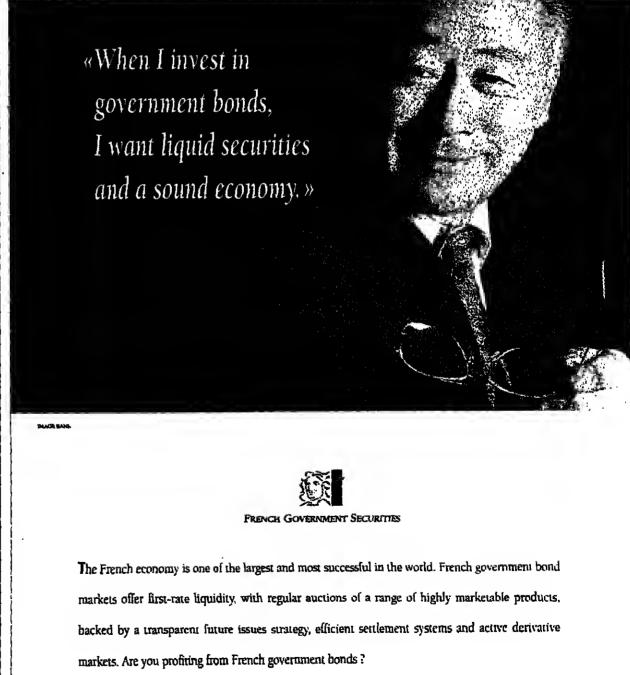
last few years. If Mr Bayron does manage to bring about meaningful reform, that still leaves him with the dossier of modifying the "bac" itself.

"No country has invented an exam so monstrous," as the French magazine Le Point put

it recently. As for the most elite and highly-selective part of France's higher education system, little is likely to change. "The grandes écoles are untonchable," says one senlor political adviser to the

government. "They are the only part of the educational system that actually works."





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Climate becomes more inviting

France is belatedly competing with the UK for inward investment into the European Union

Nothing straightforward in the complex marriage of politics and husiness in France. It was Mr Edouard Balladur, the centreright Caolliat prime minister, who as minister of economics in 1986 introduced the system of domestic "core investors" designed to protect privatised companies from foreign take-

Yet it was the socialist admioistratioo - after first oationalising the country's banking and insurance system and many of its leading indus-trial groups in 1982 - which went on to liberalise France's fioaocial markets and do much to attract foreign

lt was also Pierre Bérégovoy, the former socialist ecooomics minister and prime minister, who in 1992 created the Invest in France network designed to attract husinesses from other countries and give them better help on arrival.

"The image that France is closed to foreign investment is really something from the past," says Mr Raymood-Max Aobert, minister with responsibility for the network and for local and regional development. "Our reception of companies is now among the most flexible that exists."

Some ambivalence still remains, Mr Michel Pébereau, chairman of Banque Nationale de Paris, warned recently of the spectre of a oon-Freoch bank taking over one of the country's domestic financial institutions noless they started to improve their own performance and strength.

It was ooly last year that Mr Alain Madelin, then economics minister, announced the aholition of the legal requirement for all foreign takeovers to be registered with and formally approved by the government. That condition now only remains for the defence sector and huslnesses involved in other areas of "national inter-

Mr Jean-Daniel Tordjman, amhassador at large, whose under Bérégovoy was designed to create a local point for foreign investors, stresses how much things are changing. He highlights the fact that Presideot Jacques Chirac has already made two speeches designed to encourage foreign investment, one in Chicago and ooe in Singapore. The late President Mitterraod never mentioned the subject.

Mr Jean Arthuis, the current ecooomics and fioance minister, has also made the attractioo of foreign investment ao important priority. He

Midi-Pyrénées

Expansion

in April including a simplification of the administrative process for receiving work permits for employees of foreign groups coming to France; less red tape for those wanting to open shops; and the appointment of a senior tax officer to work exclusively for foreign

Other initiatives also demonstrate the shifting attitude towards foreign investors. The two most recent privatisations of Pechiney and Assurances Générales de France - have beeo carried out without any "core iovestor" or formal agreement. Both are theoretically valoerable to foreign

Mr Tordiman argues that French companies can learn a great deal from foreign investors - and highlights the false fears aboot the Japanese in the US, who have helped introduce many management methods to raise productivity.

For Mr Aobert, that is the most important reason for the change io attitude, given France's corrent high rate of unemployment and the governmeot's focus oo its redoc-"We estimate that foreign investment last year created or preserved 20,000 jobs. Over the last few years. it has dooe this for an annual average of 17,000, an objective we want to dooble in the next five years." He stresses that France's attractions include the quality of labour, its central geographical position in Europe, and its reputation for research and training - as well as what he calls "a certain quality of life".

Others talk about a oew ingredieot which could be set to become ao iocreasingly important advantage, ootably over the UK: France's commit meot to joioing the single European currency.

Certainly France has scored some notably recent successes in the intensifying hattle to lure foreign investors. Against stiff competition notably from the UK, it won the fight for Motorola's European research ceotre. Even more recently this year, Federal Express chose it for its main European distributioo centre.

Figures pohlished by the Bank of France at the start of June showed that the volume the country stood at FFr60.7bn last year, against FFr60.8hn in 1994, with the largest proportioo coming from the US and

Nevertheless, there is considerable debate aboot the way in which the French statistics and those from other countries are compiled, which makes any international comparisons franght with difficolties. Shoold takeovers of existing domestic groops be counted as the French do? Or profits that are reinvested, as in the UK? Equally, while France has

FOREIGN TRADE: by David Owen

Industry is the export hero

Manufacturing has been the backbone of France's \$20bn trade surplus success

scored impressive victories in

attracting hig names which

attract the atteotioo of top-level "facilitators" like Mr

Tordjman to ease the way,

there are questions about how

far the same facilities are

available to smaller compa-

nies, and how moch difference

its latest measures will really

At the second annual confer-

ence of Invest in France - held

just outside Paris at Euro Dis-ney, another example of the

country's ability to attract

high profile investment pro-

iects - one concern was the

difficulty of the Freoch lan-

guage for foreigners, notably

from Asian countries. Another

relatively inflexible employ-

ment legislation.

was the high social costs and

But the most persistent criti-

cism by both investors and

local elected officials was of

French hureaucracy. "Burean-

admits Mr Tordjman. "The

speed of administrative deci-

sions needs to be increased,"

he says. "And there are too

many, and complex, taxes."

The administrative structure

of the organisations designed

to help foreign investors high-

lights the problem: Mr Tordiman is paid by the

French foreign service, with

his expenses and office in the

ministry of finance and eco-

oomics. The Invest in France

oetwork is responsible to

Datar, the state regional devel-

opment agency with a tradi-

tional emphasis aiding the

poorest regioos, rather than

businesses seeking the best

possible location for their

"A few years ago, the British did oot take us seriously. That

has now changed."

Mr Tordjman says simply:

cracy kills our country."

Ask Parisians how France can have a \$20bo trade surplus when tourists and Freoch manufacturers alike appear convinced the franc is overvalued and you will often get the same pat answer. It is oot that France is exporting more, they will tell you, but that it is

mporting less. This explanation has the virtue of simplicity, but it is miles wide of the mark: exports reached a record FFr125bo only this March, according to government figures; and imports rose sharply to just under FFr112bn

In that case, it is often suggested, the world must be drinking a lot of champagne and eating pleoty of paté de foie gras. That may be true: France has enjoyed a healthy trade surplus in agricultural and food products throughout the 1990s. But it still does not explain why the overall surplus has heeo so booyant

To understand that phenomenon, you need to turn to the so-called professional equipment sector, a catch-all category taking in everything from machine tools to aircraft, computers to ships.

Since starting to generate a surplus in 1992, this sector has quickly become a mainstay of France's impressive trade performance. It has produced a surplus of FFr10bn or more in each of the last seven quarters. In the second quarter of 1995. the surplus reached FFr19.4hn. Add to that the country's

regular surplus (FFr7bn in the first quarter of 1996) in the land transport category - cars and the like - and the coocluslon is inescapable: for all



Sound and turry: international anger over France's nuclear tests did not seriously damage its foreign trade

France's unmatched reputation in luxury goods and food items, good old-fashioned manufacturing turns out to be at the root of its recent trading

While this probably does oot qualify as France's best-kept secret, it is little enough appre-ciated for Mr Yves Galland, the minister responsible for foreign trade, to have referred to an "image problem" in a recent address. France's image, he said, was still too focused oo "our classical exports", such as luxury goods, fashioo, wine and perfume, "Our exceptional capacity io very many hightech sectors is still not widely

enough appreciated." Mr Galland made these remarks while announcing that the government had decided to designate eight countries as priority markets for the purposes of foreign trade. The eight are: Sooth Africa, Brazil, China, Korea, India, Indonesia, Mexico and Russia, Efforts will also focus on Japan and the US, the two countries with which France has its largest hilateral trade deficits. Mr Galland said Mr Jacques Chirac, the French

president, had set the objective of tripling France's market shares in Asia in the next 10

A glance at the figures for this year's first quarter does much to explain this particular priority: France recorded a FFr2.4ho deficit in its trade with the Asian tigers after six consecutive quarters when a surplus was registered. Trends in France's trade

with Japan were markedly more encouraging, however, with French exports rising 18 per cent. Sales to the US, meanwhile, were ahead by 15

per cent. According to Mr Galland, this first-quarter result showed France was "benefiting from the good health uf the US ecocomy and the progressive opening of the Japanese mar-

Much the biggest slice of France's foreign trade involves its fellow European Union members, with which it has enjoyed a small surplus since 1993. Though many individual French companies have been hit by the recent slowdown in Germaoy, this surplus remained close to FFr8bn in the first quarter of 1996, having

Car sales produced a big surplus with eastern Europe

attained a record FFr10bo in the last quarter of 1995.

In a development of potentially major significance, a rapid increase in expurts eoahled France to record a trade surplus with the countries of eastern Europe in the first quarter of 1996 for the first time in years. Strong auto-motive sales to Poland were responsible for onuch of the improvement. The turnaround would have been even more marked were it not for increased French energy imports early in the year as a result of the cold wioter. Energy is one of the few sectors where France ruos a perennial deficit.

Sales of French goods to Africa were also at a record level of nearly FFr23bn in the first quarter, resulting in a quarterly trade surplus with the region of FFr9.8hn, the highest for a decade. This was largely due to two large exceptional items, bowever: the export of an oil platform to Congo and of a ship to Liberia.

■ LUXURY GOODS EXPORTS: by David Buchan

France retains that certain something

Exports benefit from the tradition of style and good taste established under Louis XIV

cuisine, Folies-Bergère, gay Paris, hante couture, and ample exports of cognac, champagne, even Bordeaux and Burgundy, it's all finished," Georges Pompidon said in 1972. The future lay with high-tech

and industry, he added. But, a quarter of a century later, the French luxury industry is booming. The 78 member companies of the Colbert Committee - in fashion, perfume, champagnes, cognacs, jewellery, leather - together sell some FFr35bn worth of goods a year, three quarters outside

bounced back from the impact of the Gulf war, which emptied the duty free shops of the world, and the backlash of last year's Freoch nuclear tests which led to a less damaging boycott of French goods - even many and Scandinavia - than originally feared in Paris.

The start of the Paris bourse has been LVMH, the sector giant which makes most of its FFr30bn sales out of Vuitton leather goods, Moet champagne, Hennessy cognac and perfumes and clothes from Christian Dior, Guerlain, Givenchy, Kenzo and Christian Lacroix. After its share price rose 25 per cent last year and another 26 per cent so far this year, it now has the higgest market capitalisation (FFr111bn) in the country.

Investors have shown equal appreciation for France's mini huxury conglomerate, Hermes, whose share price has nearly quintupled in the past three years. The originality of Hermes has been to hranch out of perfumes and silk scarves into all manner of high quality, traditional products such as shoes watches and glassware In the process, it has become a major supporter of French artisanal skills. It was Jean-Baptiste Colbert

Louis XIV's industry minister, who first set up the French luxury sector out of a mercan-tilist belief that France should confine exports to products like Gobelins tapestries and St Gohain glass and keep basic goods with a war-making potential out of its neighbours hands. But the country quickly acquired a taste for luxury that it has oever lost.

Mr Christian Blanckaert, the former head of the Colbert Committee and now a senior Hermès executive, claims in a new book, Les Chemins de Luze, that Freoch predomi-

Price and currency shifts affect sales, but quality remains paramount

nance in the world luxury goods market stems from the fact that it has become completely interwioed "hetween our history, our art de viere. our culture, our temperament and our [luxury] houses".

It oow has considerable snob appeal to growing numbers of people. Mr Blanckaert points out that the super-rich are a surprisingly small market for the French luxury industry which does only 2 per cent of its husiness in the Middla East. and equally little in Latin America. Some 95 per cent of



agaiost Italy, "precisely because it is part of the fam-

ily". How can France persuade

Asians to stop making and seil-

ing fake products when it can-

oot dissuade Its own Italian

class" in western Europe, the US and increasingly in Asia. Channel, Chanelle, Chanele, Japan is the second biggest and on the Vuitton mark as outlet (after France Itself) for Vouiton, Vuiton, Vuitone, the Colbert Committee's 78 But there is also counterfeitfirms, but the entire Asia/Paing closer to home. Mr Blanckcific rim oow accounts for one aert has a particular grudge

Some of France's luxury products, particularly champagne, cognac and decorative items (l'ort de la table), have receotly seemed seositive to price rises, exchange rate fluctuations and economic downturns. But, hy and large, they appear to sell more on quality wbich, in the view of Mr Blanckaert, is best ensured by companies keeping a strict coo-trol of their productioo and sales oetworks. Significantly, both LVMH and Hermes have recently been taking over licences and franchises held by their distributors.

third of exports.

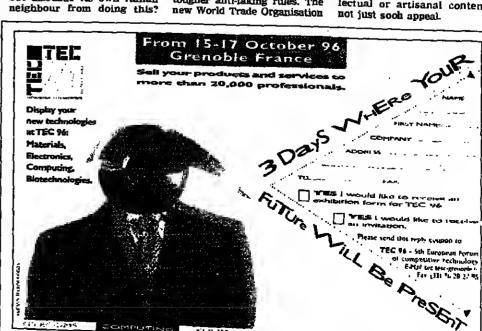
At the same time, however, French luxury goods bave hecome a prime target for counterfeiters, According to Mr Blanckaert, France has oearly half the world market in luxury goods, hut seven out of every 10 items faked are of Freoch design, and Freoch luxury companies spend 5-7 per ceot of their turnover combatting fraud.

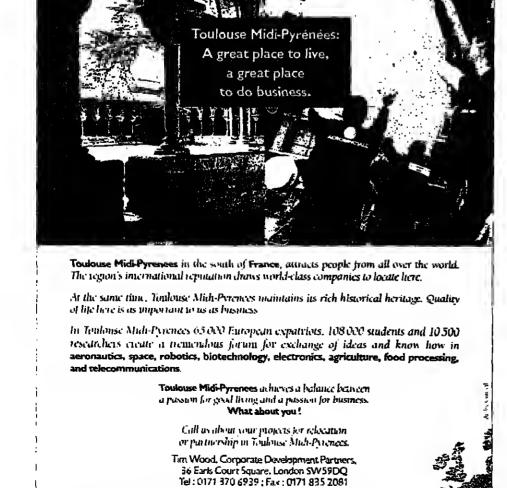
A new threat, says Mr Blanckaert, is "the registering of similar or parallel tradeThe prospect of Turkey, a big source of counterfeited textiles, entering the European customs union also strikes fear into the Paris fashion houses.

On a more positive note, Mr Blanckaert detects a considerable fall in counterfeiting in Hong Kong and Thailand, and believes the trend will continue. In 1994 France iotroduced severe peoalties for counterfeiting and got the European Union to introduce tougher anti-faking rules. The new World Trade Organisation

has also taken a tougher line on guarding intellectual prop-

French luxury houses naturally feel outraged by forgeries which wipe out some of their heavy investment in promotiog and advertising their products. At the same time, all luxury goods manufacturers need to ask themselves why so many of their products are so copiahle, and to ensure that "the real thing" relies oo solid intellectual or artisanal content. not just sooh appeal.





Toulouse Midi-Pyrénées,

l'essentiel est ici

E ECONOMY: by David Owen

Over hill and down dale

Trade unions still have the power to accelerate or retard the rate of economic growth

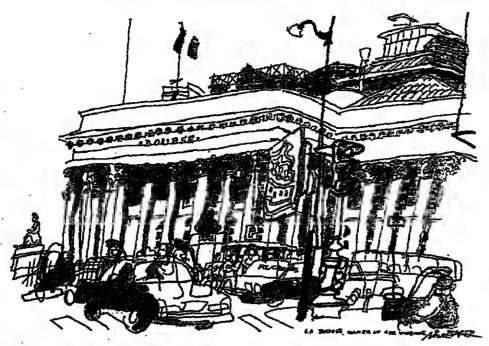
The French economy has had more ups and downs recently than one of the alpine stages in next month's Tour de France

bicycle race: • from virtual stagnation between April and October 1995 to a 0.4 per cent fall in the final quarter,

• from a 1.2 per cent spurt in the first three months of 1996 back, say analysts, to almost zero growth in the quarter just

The chief explanation for this volatility lies in the way France's still influential trade unions, and consumers in general, have responded to a range of structural reforms and spending cuts devised by the conservative government to cut the country's extensive public sector down to size.

Both the late 1995 slippage and the alacrity with which the present year started were attributable in part to the wave of public-sector strikes which hit the country last December, bringing substantial swathes of the economy grind-



ing to a halt. For example, tha strikes appear to have severely disrupted consumers' Christmas shopping plans, with the result that 1996 began with a burst of buying. Honsehold spending on manufactured goods rose 5.1 per cent in Janu-

While this seems to have If one makes allowance for been no more than a hitp (such spending has fallen three months in a row since then), overall household consumption still rose by 2.4 per cent in the first quarter after falling 0.3 per cent in the final period of

effect of these strikes in shifting consumption that would normally have occurred in the last part of 1995 into early 1996, a much more regular pattern emerges: French economic growth has been ansemic for more than a year.

■ PUBLIC UTILITIES: by David Buchan

Giants feel the squeeze

Telecoms are being broken up but other utilities are more resistant to radical change

Mr Alain Juppé is like a man walking on eggs as be tries to move France's state-owned ntilities to a more competitive future without bringing their workforces back on to the streets to protest.

He seems to be getting away with deregulating the French telecoms sector and partially privatising France Télécom without breaking too many eggshells. By contrast, industrial relations remain fragile at Electricité de France (EdF). pending the outcome of European Union negotiations on a new directive to liberalise the energy market

The government's attempt last autumn to streamline the SNCF rail company produced a messy omelette in the form of a paralysing 24-day national strike. Determined to avoid a repeat, the government is now to give the SNCF massive debt relief . without demanding productivity improvements from its workforce; however, rall unions are still unhappy with the more commercial approach that SNCF is being ordered to

A common theme to the debate over French public services is pressure for reform from Brussels and other members of the European Union. This pressure is often exagger-ated in France and distorted into an erroneous belief that "Europe" is imposing privatisation on France; the Treaty of Rome is neutral between pub-lic and private ownership. But there is a free market spirit in much of the Treaty of Rome of which France can hardly complain since it was the dominant EU country when that treaty was written in 1957 and the recent trend in Brussels and in other member states has been to try to curtail

monopolies. However much governments in Paris, particularly the centre-right one in power, may privately agree with this trend, they face special difficulties in following it. Overall, French unions are numerically weak, but strong in the public sector and further radicalised by the success of the Dacember strikes. Nor is there much push for change from tha French public, which accord-

Population	58.4 million (19 President Jac Frenci	96 estimate) ques Chirac n Franc (FFr)
CONOMY	1995	1996
Total GDP (\$bn)	1,543	1,570
Real GDP growth (%)	2.2	1.0
Real GDP growth (%)GDP per capita (\$)	26,550	26,840
Private Consumption	59.9	1
Total investment	18.2	
Government Consumption	19.6	n.a.
Exports.	23.5	- 1
imports	:21.2	
onsumer prices (% pe)	1.7	2.1 - -
fanut prod. (% pa)	1.0	· 0.0
Inemployment (% of lab force)	11.6	11.8

KEY FACTS

26.9 Reserves minus gold (Sbn). 3-month PIBOR rate (%)... +15.5 FY/S&P index (% change) Gross public debt as % of GDP... -51.2 Current account balance (Sbn)... 16.9 12.0 276.0 Exports (Son). Imports (Sbn). Trade batance (\$bn). Trade partners (1995, % value)... Exports imports 17.7 18.5

= Latest figures - EIU estimates for 1998 except Reserves (March), and stock market index (% change from 31/12 95 to 31/ ** = Belgium-Luxembourg Economic Union. Sources: Economist Intelligence Unit, Datastream, IMF.

ing to all the opinion polls is relatively satisfied with the service it gets from most pub-

lic service companies. France Télécom has greatly improved the quality of tele-phone service in France in recent years, and even without the some of domestic competition EdF now pays clients compensation if its agents do not

keep appointments.

To ease the widespread French fear that even competition, let alone privatisation, would introduce inequalities of service, tariffs and access. France wants to use the intergovernmental conference to write into the EU treaties the right of citizens to universal public services open to all at a reasonable price.

But pressure for liberalisation in telecoms - the most international of services - has

proved irresistible. The French parliament is in the throes of passing bills to remove France Tèlécom's monopoly on business services by July 1 and on ordinary voice telephony by January 1998, to set up an independent body to regulate com-petition, and to turn France Télécom into a regular company with its own capital, np to 49 per cent of which will be sold to employees and inves-

There have been a series of

9.0

6.5

one-day protests by France was attended by fewer workers than the one before. This is hardly surprising, given that the government has promised to retain majority state control of France Télècom, to maintain it as the provider of a universai telephone service and to continue to give new recruits hired before 2002 the same civil service job rights that current employees enjoy. "The financial markets may not like this, but there it is," commented Mr Michel Bon, the France Telecom president, about the civil service guarantees.

thing to gain from greater liberalisation. It is the world's largest alectricity producer with 54 nuclear plants, a big exporter of power (12 per cent of total output) to neighbouring countries which permit imports such as the UK, Italy and Switzerland, and increasingly a direct investor in power generation in remoter markets. To its competitors, EdF therefore looks more like predator

than prey. In fact, France does not mind EdF losing its monopoly on exports and imports, or for that matter, Gaz de France which has virtually no domestic output to protect. But France is adament that EdF should keep control over the

of electricity for two reasons. The first relates to a worry that, without overall mastery of the market, EdF will be

transmission and distribution

unable to do the long-term planning and investment which nuclear power requires. lf foreign producers are allowed entirely free cotry, the fear is that in certain cases they could, with a quick investment in conventional energy or exploiting a momentary drop in fossil fuel prices. render some of EdF's nuclear plants uneconomic, "stranding them like beached whales" in the words of one industry official.

The second factor is more political, steerning from a long-standing commitment by EdF and successive governments to charge individual customers the same price wherever they live. This commitment has some real meaning in one of Europe's tries, where charging farmers in remote areas the higher real cost of linking them to the EdF erid would be politically

The upshot is that - in negotiations with Germany, its main protagonist on the issue of EU liberalisation - France is ready to allow its largest ener gy-using companies to bargain with foreign producers for cheaper power, but is insisting that any power imports must pass through a "single buyer" - EdF itself or some government body. A few un-nationaltsed regional electricity distributors still exist, mainly in eastern France. At present they are totally tied into EdF for supplies. The government is not prepared to let them search abroad for cheaper power, for fear they might actually find it, pass it on to their individual customers and so break the universal tariff. The SNCF's biggest problem

is its crushing FFr206bn debt. Competition on rail freight heads for the **buffers**

and the government has now taken bold action to take over that part of the deht -FFr125bn - which is related to infrastructure and put it into a new state bolding company that will assume all future responsibility for building new track. The SNCF and its 180,000 employees is to stay intact, but benceforth purely as a rail operator. Thus, SNCF will pay toll fees to the new state company for use of "its" track, and in turn get paid for maintaining the track.

EdF, one might have The plan goes much further thought, would have every. than the 1991 EU directive The plan goes much further which merely required railways to separate infrastructure from operating costs for bookkeeping purposes. Mr Loik Le Floch-Prigent, the SNCF president, said the debt reltef would halve the company's financial charges, allowing it to aim at an eventual overall profit.

But another proposal for change comes from Brussels. The European Commission last year proposed the opening of rail freight to cross-border competition. Following the French rail strike, the Commission has scaled down its proposal to suggest that only the busiest freight routes might be opened to other EU carriers. But even that proposal may hit

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and there is little conclusive evidence yet that a sustained upturn is in prospect.

Part of the problem is that no alternative economic motor has really emerged to take the strain from external growth. Exports remain impressive, particularly in view of the strength of the French franc and the problems of Germany, France's largest export market. But growth in the trade surplus has inevitably slowed

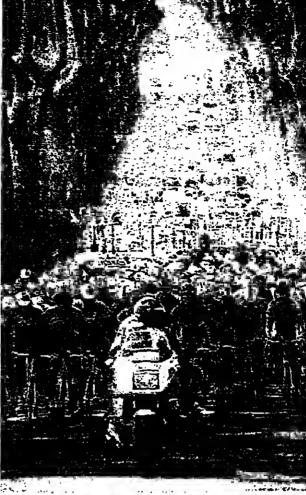
It reached FFr30.66bn in the first quarter, against FFr25.77bn in the corresponding period of 1995 - an increase of 19 per cent. The first-half 1995 surplus of FFr60bn represented a 63 per cent improve-ment over 1994 levels.

In spite of January's spending spree, most analysts expect consumer expenditure to remain subdued for the foreseeable future, owing to high taxes, concerns about job security and the high rate of unemployment

Though this has begun to fall in recent months, it remains, at 11.9 per cent, among the highest in the G7 group of industrialised nations. Prime minister Alain Juppé has in recent weeks resorted to the promise of future income tax cuts in an effort to encourage consumers to spend more.

Ms Patricia Lormeau, a Paris-based economist with the French bank Paribas, interprets the steep reduction in stocks, without which firstquarter 1996 growth would have reached an impressive 2 per cent, as a negative sign for consumption, since it suggests companies do not expect the improvement in demand to continue. "Households will continue to be prudent," predicts Mr Oliver Eluère, an economist with Credit Lyonnais, another French bank.

With a big chunk of the country's industrial base in the throes of restructuring, rarely a week passes nowadays without the announcement of largescale job losses in one sector or another. Recent examples include Giat Industries, the lossmaking tank and munitions maker, which last month announced a plan to reduce its workforce by 2,700, and France Télécom, which recently reached an agreement with some of its unions that could



enable it to shed more than 15 per cent of its 150,000 staff over 10 years. In addition, rumours of significant ioh losses in the civil service have begun to circulate in the wake of a promise by Mr Juppé to trim "excess fat" from the service as part of his economy drive in the 1997

Meanwhile, the creation of new jobs is restrained in part by the high payroll taxes used to fund France's generous, but

costly, welfare system.

All this has led to a groundswell of political support for the idea of spreading available work in France among more people by shortening working hours as a means of creating more tobs. Mr Juppé last menth held out the possibility of tax incentives to lure French employers into meeting union demands for such moves. One way and another, unemployment has replaced inflation which has been rising lately. but remains below 2.5 per cent - as the principal scourge of the French economy, It goes almost without say-

ing in the present circumstances that the government cannot afford to raise public spending to stoke up growth ut the absence of other stimulants. Ministers have set them-

selves the target of gelting the public sector deficit down to 3 per cent of GDP in 1997 tfrom 5 per cent in 1995) to qualify for European economic and monetary union. Even if the government adheres to its present plan of bolding public spending in 1997 at this year's level of FFr1.552bn, most analysts think this will prove a tall order. If Mr Juppe loosened the purse-strings, what is now a difficult target could start to

look impossible.

Many observers argue. indeed, that this preoccupation with the deficit will condemn France to excessively high unemployment and indifferent growth for some time yet. Mr Jean-Jacques Rosa, economics professor at the Paris-based Institut d'Etudes Politiques, says be can see "no reason" why the government's forecast of 2.8 per cent gross domestic product growth in 1997, after 1.3 per cent this year, should

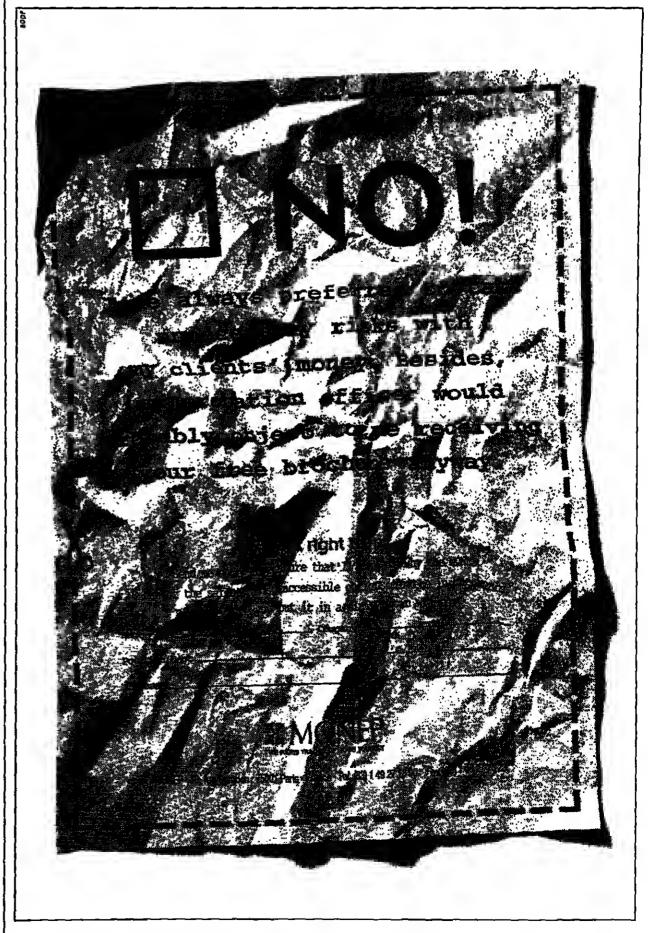
Receut trends in investment, at least, are more positive. Analysts were encouraged by the 3.1 per cent quarter-onquarter increase in industrial investment in the first three mouths of this year, although same questioned whether it would continue. According to Ms Lormeau of Paribas, companles have the means to invest but it is far from sure whether they will opt to do so. The May monthly industrial survey conducted by Insee, the Preoch national statistics agency, did not bode well; it suggested the outlook of professional equipment suppliers had taken a turn for the worse, with order books fidting.

One development that may facilitate a sustained upturn in investment is the stendy downwards drift in interest rates made possible by France's improved standing on international capital markets. This was symbolised in early May when interest rates on long-term Freuch government debt slipped to around the same level as rates payable on comparable German debt, At least one French business leader - Mr Jean-Louis Beffa. chairman and chief executive of Saint-Gobain, the glass, ceramics and insulation group

thinks French companies should be taking advantage of such rates. "Today, you can get low-enst finance", he says, "Companies which are not taking advantage of that for their shareholders are making a mistake."

The precise pattero of French growth in coming quarters may continue to depend to an uncomfortably large degree on the nature of the trade unions' response to the cocktail of privatisations, spending cuta, restructurings and -Increasingly probably - tax reductions Mr Juppe unveils. Their unhappiness continues to smoulder, largely in the form of one-day stoppages and action days.

But whether a sustaioable upswing materialises may hipge in large measure on how many business leaders and ordinary consumers share Mr Beffa's views on the attractiveness of present interest rates.



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End of the citizens' army

Abolishing conscription - and a revamped arms industry - are the order of the day

As commander-in-chief. Jacques Chirac has given the order for all change in France's armed forces and its defence

By 2002. France will have allvolunteer forces, ending nearly a century of military conscription. These fully-professional forces will be far smaller than today's, but are intended to pack a bigger punch at roughly the same cost. The creation of more compact forces, involving the scaling down or cancellation of some equipment programmes, is to be matched by a government-steerad reshaping of France's fragmented armaments sector

The government plans to oversee the forming of new combines, particularly in aviafrom a position of greater strength would be able to nego tiate new European industrial partnerships in order to confront renewed competition

It is an agenda of change that is deeply unsettling to many of France's soldiers, garrison-towns, defence companies and workers, and to its chief ally, Germany, worrled about the implications for its own military and industrial ventures with France. But President Chirac feets that defence reform is long-overdue, and appears to be determined to make it one of the hallmarks of his presidential term.

• The changed threat. Slx years after the fall of the Ber-lin Wall and consequent defence retreochments by all its main allies, France recognises it no longer oeeds mass formations to fight the land war in central Europe that never come. Following its rapprochement with Nato, it is now more prepared to face any residual territorial threat in conjunction with its aliles, while giving its large, para-military gendarmerie - the one service to increase in numbers. hy 5 per cent to 98,000 hy 2002 a bigger role in ensuring internal security which is increasingly a problem of ter-

rorism or drugs. The main future role of France's regular army, navy, air force will be to project themselves into overseus troubic spots, and more impressively than in 1991 when France, with forces twice the size of the UK'a, was only able to send to the Gulf half the contingent that the UK did. • The new force structure.

The next six years will see the army shrink by 36 per cent, the navy by 19 per cent, and the air force by 24 per cent, as conscription is phased out. In deference to a feeling - wide-spread among politicians but uot the general public - that national service still constitutes an essential "republican value". the government is proposiog to require all 18 year olds, girls as well as boys, to attend a compulsory "civic rendezvous" for about a week.

The only point of this seems 10 be that it will provide infor-mation about the health and aptitude of French youngsters so that, in a real emergency, conscription could be swiftly reintroduced. ft would also inform the country's youth about the kinds of voluntary service - the armed services, or humanitarian aid ahroad, or social work at home - for which they could volunteer if they felt so minded.

The armed services want France to be able to mobilise a sizeable force of 30,000 troops, with air and sea support, for some foreign crisis spot and sustain them there for a year and at the same to be able to send a small force of, perhaps, 5,000 troops elsewhere. This "one and a half crisis" strategy reflects France's intention to take the lead, along with the UK, in European crisis inter-vention or peacekeeping, as well as maintain its defence commitments to former colonies in Africa.

This strategy requires better

ter military transport. But one of the major flaws in the new Chirac programme is that, while it contains money for new spy satellite programmes it has almost none to spare for France's share of the Future Large Aircraft (FLA) military transport. As a result, France is campaigning for the Airbus consortium to develop commer cially an FLA, which it and other governments would then huy off the shelf.

intelligence-gathering and bet-

 Budget constraints. The new limit on defence spending for 1997-2002 is to be FFr185bn a year, split between FFr99bn for pay and FFr86bn for equipment, in constant 1995 francs. This increase would allows nominal defence spending to reflect inflation. The FFr86bn for equipment is considerably less than voted in recent years hy the parliament, though not much less than that actually spent bacause of frequent credit freezes by the govern ment.

Howevar, tha government has appointed a new defence procurement chief, Mr Jean-Yves Helmer, the former head of Peugeot's car division, and is looking to him to make a 30 per cent cost saving and efficiency improvement in weapon procurement over the next six years. One result may be a substantial reduction in the procurement executive, which at present employs nearly 50,000

• Equipment, in addition to scrapping the aged land-based nuclear missiles in sonthern France, the government has decided not to hulld a fifth new nuclear missila submarine and is delaying delivery of a third one until 2002. The singla most expensive programme, the Rafale jet whose cost of production by Dassault is said to be five times its weight in solid gold, is to be continued, hut at a slower rate and the navy is only to get 60 of these machines (instead of 86) to put on its nuclear-powered aircraft. carrier, the Charles de Gaulle, still under construction.

The army is to get 406 Leclerc tanks (instead of the 650 It originally planned for), while technical requirements for a new armoured vehicle are being scaled down in tha hope it can he made jointly with Germany and perhaps the UK.



apid deployment October 1995: French Foreign Legion in mortar practice at Mt. Igman near Sarajevo

French orders for the Franco-German Tiger attack helicopter are to be maintained at 25 over 1997-2002, but the first delivery to the army is to be delayed by two years. It is also likely that over the long term France may halve the overall number of 215 Tigers it had originally intended to buy.

Restructuring. The government has two sets of tasks in mind. The first is to strengthen the weak finances in certain loss-making state-owned companies. Snecma, the aero-engine company, is one of several state enterprises now asking the government for recapitalisation to cover past losses. But the worst case is Giat industries. Created in 1990 out of various government arsenals making tanks, guns and ammunition, Glat managed to report a net loss of FFr10bn for last year on sales of only FFr5.4hn. Part of the loss was provisions to cover the exchange rate risk on Giat's contract to supply the United Arah Emirates with 436 Leclerc tanks at a fixed dollar price of \$3.6bn; far from being Giat's salvation, the enormous UAE contract has thus caused some of Giat's present problems.

Partly because of the Giat precedent, the government seems unlikely to hive off its DCN navy yards into a similar sort of state company, But the

Arms makers will be encouraged to amalgamate

DCN yards, which employ 25,000 peopla directly and another 5,000 indirectly and constitute Europe's largest ship-huilding force, pose a serious problem for the government. The DCN has managed to export ships, but not enough to cover the fall in French government orders from FFr20bn in 1990 to FFr14.5hm last year. Its status as a government arsenal also makes it more dif-

ficult for it to co-operate with UK and Italian yards with which it is building the new Horizon frigate class. But this year's main dramas

turn on the outcome of two government plans. The first is to merge the state-owned Aerospatiale with Dassault, in which the government has a large stake and even larger leverage but which is headed by Mr Serge Dassault. The latter has been stubbornly resisting seeing his famous family company being swallowed up hy the much higger Aérospa-tiale, hut after some hard hargaining will probably concede

in the end. The other drama concerns the government decision to privatise the Thomson electronics group this year. This has set off a fierce contest hetween two private groups - Lagardère and Alcatel - for Thom-

The government's desire to sell Thomson-CSF, the profitable professional/defence electronics division, and Thomson

Multimedia, the loss-making and indebted consumer electronics husiness, as a whole appears to suit Alcatel. Thuugh undergoing deep restructuring which has pushed it into loss, Alcatel is of a size to absorb the whole Thomson group, and Multimedia could flud some synergy with Alcatel's telecom-

munications activities. By contrast, the smaller Lagardere group has made clear it is only interested in Thomson-CSF, hut says it is ready to arrange a buyer for most of Multimedia, except for its digital satellite television decoder husiness,

Vaunting its defence expertise and relative financial soundness. Lagardère has also said it would bring UK and German companies into any eventual merger of its Matra defence arm with Thomson-CSF, thereby creating instantaneously ona of the mega-European defence alliances which Mr Chirac has called for to take on US indus-

E FINANCIAL SECTOR: by Andrew Jack

Financiers feel the heat

Insurance houses and banks appear powerless to master a recurring

series of troubles

Nothing could he more symbolic of the current tensions facing the French financial sector than the huge fire which ripped through the headquarters of Crédit Lyonnais, the state-owned hank, on a Sunday morning in early

Already struggling under the burden of a FFr135bn restructuring package brokered last year with the government, the bank's executives - and much of the city's population watched powerless as their historic central Paris office com-

plex was consumed by flames. While the French media quickly started speculating on whether the bank with its seemingly endless troubles was cursed, the country's insurers were getting to work on the more practical matter of assessing the financial damage of the claim - which could ultimately reach FFr1.5hp - to their own balance sheets.

Plagued by high coats. intense competition and little demand for credit, the country's hanks are only haraly scraping back towards profit ability. For the second year in succession, net banking reve-nues for the members of the Association of French Banks fell in absolute terms, down to FFr227bn - a trend which had not previously been seen since before the second world war. Net income crept back up to FFr2bn, after falling to heavy aggregate losses of FFr11hn in 1994, but largely as a result of a substantial decline by 38 per cent in provisions to FFr37hn. as the crippling impact of the property crisis - notably for Parislan offices - and lending against struggling small busi-

or individuals. Crédit Lyonnais itself scraped back narrowly into profit, but only after intense internal debate. A number of analysts suggest that the bank will again drop heavily back into the red again for 1996, raising the prospect of renewed calls for re-negotiation of its rescue package or a recapitalisation ahead of an eventual privatisation.

esses loans diminished. There

has so far been little compensa-

ting recovery in demand for

credit from either companies

in view of the gloomy outlook, it is little surprise that the commercial banks renewed their attack on what they see as the uncompetitive domestic environment: in particular, the existence of mutualist banks. the Post Office and the Caisse

d'Epargne savings hank net-work, with no requirement to something which could trigger have yet to be explained. provide a return on equity their "shareholders". Equally, they accelerated

their own efforts to restructure and win husiness. For example, a significant number signed local agreements with their unions to provide their hranches with greater flexibility in opening hours, notably on Saturdays. Most continued gradual programmes of joh reductions. At the same time. they have been aggressively marketing new savings and

loans packages.
The last few months have seen important shake-ups in the sector. Crédit National acquired the Banque Française de Commerce Extérieur, and Crédit Agricola took over Banque Indosuez from the ailing Suez financial holding com-

In the next few months. there is also likely to be substantial progress towards the sales by the state of Marseil-laise de Crédit and CIC, which is owned by GAN, the publiclycontrolled insurance group. Yet so far, there has been

little sign of willingness by the

banks to indulge in an aggres-

Yet another disaster as Crédit Lyonnais' Paris HQ burns out of control

Meanwhile, questions continue to surround the supervi-

slon and regulation of the country's hanks. Controversy was notably sparked by the financial crisis at the start of the year at Crédit Foncier de

an explosive political reaction

at a time of high unemploy-

ment in France, and which

helps to deter potential foreign

Competition and high costs keep banks under pressure

France, a specialist property bank in which the state holds no shares hut appoints the governor" or chairman.

As the signs of trouble grew worse, it reacted unilaterally hy sacking the bank's governor and helping to broker emergency treasury lines. Mr Jérome Meyssonnier, the new chalrman, went on to announce FFr10.8hn in losses, effectively making the group bankrupt. The reasons why the

Not everything is so gloomy.

Despite the relatively disappointing sell-off of Pechiney at the end of last year, the government finally resolved early in 1996 to go ahead with the privatisation of Assurauces Générales de France, the first insurer to he sold since the ill-fated Union des Assurances de Paris in 1994. UAP's shares still stand sub-

stantially below its offer price - a legacy which hung heavily over those planning the sale of its rival. Yet news of the priva-tisation of AGF did little to depress the share price ahead of the sale, and the results appear impressive.

The public offer for the shares was more than three times over-subscribed, the institutional placing - Including many US funds - more than six times, while the tranche for the group's employees was just about taken up. The exercise exceeded tha government's projections, and will provide it with more than

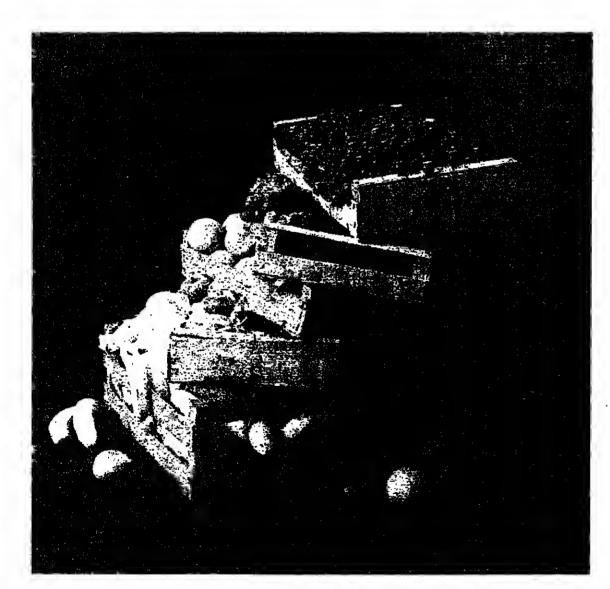
FFr8.5bn in funds. Even so, not all was as rosy as it might at first seem. Mr Antoine Jeancourt-Galignani. AGF's chairmau, lisd a preferred response when quizzed by sceptical investors about the poor performance of previous financial service sector privatisations.

He pointed to a graph showing net asset values at a discount to share prices for the financial sector two years ago a relationship which has since reversed. In other words, AGF is a bargain because it has been bought at such a low point in the cycle, at a heavy

discount to its worth. That said, many analysts praise the management approach now evident at AGF, and its new emphasis on share-holder value - a philosopby long enshrined by the private sector group AXA, but less evident in a number of its rivals Meanwhile, the Federation of French Insurers signed an important agreement in principle at the start of this year with FNSAGA, the organisation representing the country's uetwork of tied insurance agents. The deal will allow substantially more flexibility in the negotiation of contracts between agents and compa-

Spurred by AGF's success. the Caisse Nationale de Prévoyance, a slate-owned life assurance group, may also come up for sale over the next few months.

All is certainly not doom and destruction to the French financial sector. But clearing away the ashes and wreckage of the past few years is still far from over.



Rapid deployment July, 1798: Napoleon at the Battle of the Pyramids

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SWEDISH BANKING

Fresh challenges after crisis ends

The banks are disposing of the last legacy of their trauma. But several factors combine to make the coming years a tough prospect, reports **Hugh Carnegy**

bortly after the tradi-Stional midsummer cele-brations that will be held the length and breadth of Sweden this weekend, the country's banking establishment will bave another reason for. dancing round the maypole.

From July 1, the blanket guarantee of all Swedish commercial bank commitments issued by the government in late 1992, when the banking system was teetering on the verge of collapse, will finally be withdrawn.

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On the same day the Bank Support Authority, set up to steer the banks through the crisis - brought on by a calami-tous spate of credit losses - will be disbanded. After disbursing SKr65bn in taxpayers' money to rescue the banks - most of it to take over, clean up and merge the two biggest victims, Nordbanken and Gota Bank - the authority's work is

At the same time, the banks themselves are in the process of disposing of the last legacy of the trauma. They are all set by the end of the year to spin. off the large property boldings they acquired as a result of foreclosing on billions of kronor in bad loans to the real estate sector which were the principal cause of the credit

"What is happening is extremely satisfying," says Mr Stefan Ingves, deputy governor of the Riksbank (the central hank) and a former chief executive of the Bank Support authority. "When these steps

are taken, in a technical sense the whole banking crisis will be over and the banks can concentrate fully on their future

banking business." That future is not without big challenges. Several factors combine to make the coming years a tough prospect for the banks: a retail banking market showing little growth; a sharp the financial services sector caused by deregulation; the need to master fast-developing technology; and the looming prospect of European monetary

But they can at least take comfort that they are facing these challenges in relatively robust shape after the traumas of the loan loss episode.

First, profitability has been restored as levels of loan losses have dwindled. Last year, the top five banks (Svenska Handelsbanken, Sparbanken Sver-lge, or Swedbank, Skandinaviska Enskilda Banken, Nordbanken and Föraningsbanken) had combined operating profits of SKr18.5bn; a 50 per cent improvement on 1994 and a far cry from the SKr50bn in operating losses suffered by the banking system in 1992.

Loan losses in 1995 among the top five totalled SKr11.3bn - almost half the 1994 level and only a fraction of the SKr73bn lost in 1992. The banks have got the level of their loan losses down in most cases to less than 1 per cent of their total lending portfolio.

Income to equity ratios for the big five ranged in 1995 from a low of 10.3 per cent at SE-Banken, which suffered an unexpected new round of losses related to the early 1990s, to a high of 27.5 per cent at Nordbanken, whose results were still benefiting from the big clear-out of bad assets performed earlier by the state.

The state too, has seen a pay-back. The flotation of a onethird stake in Nordbanken last year raised SKr6.7bn to add to the SKr3.7bn Nordbanken had

already paid in dividends. The government now bopes to recoup at least SKr40bn of the support it gave by means of the further sale of Nordbanken shares and through the unwinding of former Nordban-ken assets held by Securum, the state-owned "bad bank" set up to take on the bank's problem loans:

With their balance sheets rebuilt, the banks have moved on to the final task of offloading their property holdings. In the case of SE-Banken, Handelebanken, Swedbank and Föreningsbanken, these have been put into special real estate companies that are now to be capitalised and spun off to their shareholders via stock

exchange flotations.
Diligentia, the SE-Banken vehicle, is the biggest, with a property portfolio of no less than SKr23bn, about half of it outside Sweden. It will be Sweden's biggest real estate com-pany. SE-Banken is spending SKr7bn of its own equity and providing another SKr3bn in subordinated loans to capitalise Diligentia, which is due to be listed on the Stockholm bourse in the second half of the

ut even after such operations, the banks' equity will be strong. Before the spin-offs, the banks have capital ratios of 15 per cent or more - prompting some to say the Swedish banks had become overcapitalised. After spin-offs they will typically still have capital ratios of about 13 per cent.

Another important strength of the Swedish banks as they emerge from the after-effects of the loan loss affair is their largely efficient cost basis. ironically, the banking crisis helped achieve this as it forced the banks to reduce staff and branch numbers - and provided a climate in which such reductions faced little trade As a result, Handelsbanken



and SE-Banken emerged in first and fourth place respectively in a ranking of European banks by Merrill Lynch gauging the level of expenses to assets in mid-1995. At Handelsbanken, the level was 1.25 per cent, while at SE-Banken it

was 1.75 per cent. "After the banking crisis many people got the impres-sion that the Nordic banking system was really in a mess, says Mr Arne Martensson. Handelsbanken chief executive. "But in Swedan, bank costs are really under control. It was a real estate crisis, not a cost crisis."

The banks will need this advantage to help them meet increasingly tough constraints on profit-making.

The underlying banking business in Sweden is sluggish. Levels of landing declined sharply from 1991 to 1994 and although they have recovered somewhat they still stand well below pre-crisis peaks. The loss of tax breaks on interest pay-

ments, a sharp rise in the savings rate and the government's sharp spending cutbacks have all contributed to dampened demand for borrow-

The banks are finding it increasingly hard to increase net interest income as interest spreads, once so generous for Sweden's banks, have shrunk.

There are more opportunities in servicing the corporate sector and in trading. The banks are all seeking to increase their fee income and have greatly increased their own bond and securities portfolios. But competition is crowding

in from outsida as well as within the traditional banking sector. The banks are anxiously anticipating the advent of European economic and monetary union as a likely harbinger of more foreign competition: already many top European and US banks have operations in Stockholm offering corporate and investment banking services.



Deregulation has also meant old distinctions between banking, insurance and savings institutions have brokan down to a significant

Insurance companies, mortgage banks - aven retailers - have opened so-called niche banks, using telephone systems backed by advanced technology to encroach on the banks' deposit base. The market share of the newcomers is still small - barely 3 per cent of bousebold deposits. But there appears to be a clear trend developing towards services which offer premium interest rates based on streamlined, low-cost service charges - and which challenge the expensive, and extensive, bank branch networks.

But the banks themselves are raiding the traditional bastions of the insurers by marketing a growing range of savings products - in which the bank branch networks are an important selling tool.

The key appears to be developing the technology to minimise costs on routine transfer and payment systems and so devote resources to selling other products. Telephone banking - in which Sweden is one of Europe's leaders - ls one route: the banks and other financial institutions are buslly experimenting with others, from interactive "video-kiosks" for doing insurance busi-

ness, to credit-loaded "smart cards" used to replace cash, "The banks are taking market share in insurance savings products because of our branch networks." says Mr Reinhold Geijer, chief executive of Swedbank. "The idea is not to close them down but to convert them. The big challenge is to get nut of cash handling."

Mr Merc Pinto, Nordic analyst at Fitch, the US ratings agancy, seys the Swedish banks have made strides in this direction. "The Swedish banks are very advanced in non-monetary transactions.

INSIDE THIS SURVEY

@ The economy: The focus switches to growth and a struggle against record double-digit unemployment

@ Restructuring: The loan loss crisis of the early 1990s is largely a bad memory but the banks still face difficult structural challenges

Niche banks: Low cost base is the key

The insurance sector: A period of transformation

Gapital markets: Sweden has two of Europe's most dynamic exchanges National debt: ender senument has shifted C Preparing for Emu:

Uncertainty prevails Supervisory regime: PROFILES: Securum

Nordbanken & Stadshypotek Trygg-Hansa

Production Editor: Philip Sanders

That has belowd drive down

costs," he says, But however efficient the various financiel groups become, many analysts still foresee more rationalisation within the industry in Sweden. The banks have adopted different strategies to secure a growing future. Handelsbanken has embarked on an attempt to

become a full-service bank in all Nordic markets. SE-Banken, through its Enskilda investment banking arm, aims to be the premier Nordic bank for the international corporate sector. Nordbanken and Swedbank are concentrating more on the domestic retail sector. These last two particularly

may look to expand through merger or acquisition. The same pressure is felt by the domestically-oriented insurers and the smaller banks and mortgage institutions. Soma significant structural reshuffling within Sweden's financial sector seems highly likely in the near future.

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THE LEADING NOBDIC INVESTMENT BANK, EST. IKEL,

nwn estimate of 1.4 per cent

growth is likely to prove over-

small tax generating private

Almost every institution

Focus switches to growth

A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995

The dominant issue in the Swedish economy since the country emerged two years ago from crippling recession has been the battle to regain control of public finances. Today. victory appears to be in sight but meanwhile the economy has shwed again, leaving the Social Democratic government struggling against record, double-digit unemployment.

The 1991-93 slump, wbicb saw the economy shrink by snme 5 per cent, wreaked bavoc in Sweden's big, welfaredominated public sector.

A dnuble-digit budget deficit rapidly opened up and state ebt surged above 80 per cent nf gross domestic product as

escalating unemployment and revenues were hit by recession Bringing the public finances back into balance became the urgent priority for the Social

Democratic government that was elected in late 1994. It overshadnwed even the rise of unemployment to a peak of 13 per cent, a traumatic experience for a country which in the 1980s had believed it was immune to the European disease of mass inbles-

Regaining control over tha hudget took on even greater importance as Sweden jnined the European Union in 1995. The government, faced by a

deep split in the SDP and the country over European policy, taking a cautious approach to Swedish membership of the European monetary union planned to start in 1999.

Even if it is accepted by Its nartners, Mr Göran Persson, the prime minister, will face an awkward struggle to win broad backing for Bwedish membership. But the country faces a permanent premium on inter-est rates if it does not meet the fiscal and monetary criteria for Emu, whether or not it elects to join.

Some 20 months after taking nffica, the government bas advanced a long way. Under Mr Persson, who stepped up from the finance ministry to become prime minister in March this year, a three-year programme of spending cuts, tax increases and asset sales has been implemented to achieve savings equivalent to

nearly 8 per cent of GDP. It is an unprecedented effort which has meant painful cuts in Sweden's famously-generous welfare system, incloding reductions in a range of benefits and institutional cutbacks. As a result, the budget deficit is now forecast to fall from high of 12.3 per cent of GDP

the crisis. Tha Riksbank has been able to lower the repo rate 12 times this year hecause inflain 1993 to slightly more than 8 per cent in 1997 and disappearing in 1998, while the public tion - which the bank feared was a threat as recently as mid-1995 - has flattened nut debt (under the Maastrict Emn and is set to remain under 2 definition) is seen peaking at

per cent at tha time of writing.

The premium over benchmark

German rates has been halved

from the spread of more than

400 basis points at the peak of

meeting Emu conditions.

Private consumption Government consumption 82 per cent of GDP in 1996 and declining steadily thereafter. **Exports** ЗĎ These developments should 3.0 Gross domestic product bring Sweden within sight of Key economic indicators The krona bas gained Unemployment (%) sharply in strength, with some Industrial production (%) Consumer prices (%) average dicting tt will join the Consumer prices (%) December exchange rata mechanism of 111 the European Monetary Sys-Current account, SKr bri tem by the end of this year. Current account, % of GDP 2.2 Crucially - not least from the point of view of the country's 40 85 Public sector financial balance, % of GDF /9.4 Public sector oross debt. % of GDP tumbled. The Riksbank's key short-term repo rate was down to 6.30 per cent and the yield 5.50 5.70 3-month interest rates nn long bonds was under 8.5

8.58

6.82

4.49

1.4

8.85

4:40

8.15

9.00

4.50

per cent for 1996 as a whole. The nutlook for the economy is far from being without problems, however. A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995. A slow-down in

expects a pick-up late this year or early next year - in line with most forecasts for the European economy as a whole. But forecasts for 1997 at best anticipate 2.3 per cent growth and at worst as little as 1 per degree factored into the government's calculations for the public finances - which are highly sensitive to the swings in the macro-economy because 2.9 nf the large public sector dependence nn the relatively

But the low growth augers extremely hadly for employ-6.00 ment growth - and persistently high unemployment in turn puts pressure nn public spending because of the high benefit evels in Sweden. Increasingly, the emphasis is

swinging from concern about what had been a powerful export boom and the continued controlling the fiscal deficits to the vital issue of how to generate more sustainable growth in weakness of the domestic economy have led to two successive quarters of negative growth. an economy where the public ctor still accounts for more Latest forecasts for the full than 60 per cent of GDP - the year range as low as zero growth, with the government's highest of any todustrialised

econnmy. Mr Perssnn has promised to halve unemployment by the end of the cen-

At present the total out of work, including those on government-funded training schemes, stands at about 12 per cent of the workforce.

Private sector economists and the conservative poposition are pressing for more radical policies to stimulate private sector growth. They are demanding more flexibility in labour market regulations and lnwer taxes nn capital to encourage more small com-pany growth, especially in the

But the Social Democrats - and especially the powerful LO blue collar labour organisation - are proving reluctant to go down this path, resisting changes such as the scrapping of first-in, last-nut dismissal rules and the emergence of bigger wage differen-

Mr Persson's approach is angled towards achieving a form of "social contract" binding employers and unions to moderate wage agreements. established lahnur market

Restructuring after the credit-loss crisis: by Hugh Camegy

Banks wrestle with changes

Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits

"Where do the banks go from here?" is perhaps a mnre pertinent question in Sweden io 1996 than in most European countries.

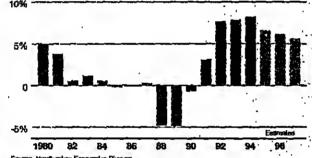
The loan loss crisis of the early 1990s may now be largely a bad memory, but the banks are still wrestling with the difficult structural challenges thrown up in the post-crisis era. Much bas already changed in the shape of the Swedish baoking sector but more changes are likely as the banks face up to the low growth and rising competition that characterises their home market.

Several Important rationalisation moves were made as a direct result of the credit loss crisis. Biggest of all was the merger by the state of Nordbanken and Gota Bank, the

twn greatest victims of the trauma, whose losses were so great that the state was forced to take them over and perform a wholesale laundering of their balance sbeets. Together, they swallnwed the lion's share of the SKr65bn which the crisis cost the Swedish taxpayer.

Nordbanken (the Gota name has disappeared) is now restured to profits. Its 1995 operating profit of SKr5.1hn bank and the process of its intended complete re-privatisation has begun with the sale

was the nighest of any Swedish



mercial banks now rank as follows: Svenska Handelsbanken, with total assets at the end of 1995 of SKr476hn; Swedhank

(SKr467bn); Skandinavlaka

Enskilda Banken (SKr439bn);

Nordbanken (SKr339bn); and

This year, all but Nordban-

ken - which had the vast majority of its bad loans

extracted by the state - are

engaged in nne of the last

important structural processes

left over from the loan loss

convulsion. They are spinning

off the property subsidiaries

they were forced to set up as

they called in the security nn

thousands of their bad loans

- most of which were to the

These subsidiaries are now

important property companies

in their own right and are set

to transform the Swedisb real

estate market as they are

floated by their bank owners

onto the bourse. The biggest is

Diligentia, held by SE-Banken.

no less than SKr23bn.

real estate business.

Föreningshanken (Skr106bn).

reorganisation of the highly fragmented - and lnss-burdened - Swedish savings banks which were brought under one roof in a new commercial bank called Sparbanken Sverige - or Swedbank. Swedbank has also moved firmly into the black and although tt is still controlled by a group of savings bank foundations, was floated on the Stockhulm bourse in early 1995,

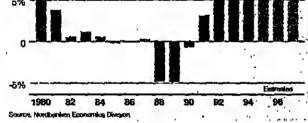
last year of a 34.5 per cent

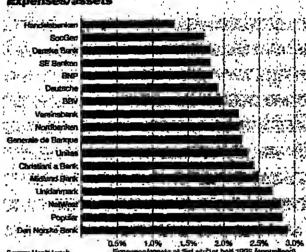
The early 1990s also saw the

stake in the bank.

Sweden's five largest com-

as a percentage of GDP





ond half of the year. Swedbank has already spun off in similar fashion its unit, called Tornet, with property boldings worth more than SKr9bn. Handelsbanken's Näckebro has real estate worth

The cost to the banks of

which holds properties worth these spin-offs is considerable. SE-Banken is pumping in It will be easily Sweden's SKr7bn of its own equity and when it is spun off to the to capitalise Diligentia, reducbank's shareholders in the sec- ing its own Tier One capital

ratio from 9.6 per cent to 6.9 per cent. Even Handelsbanken - the least hadly damaged by the loan loss debacle - is spending Skr3bn, or more than 11 per cent of its equity, to float Nackebro.

But once these operations are complete, the picture will be clearer for the banks to address their structural priorities in the post-crisis world. largest real estate company SKr3bn in subordinated loans The equation which emerges of Swedish banks. In the past suggests strongly to many ana few years, they have cut staff

rationalisation is likely, in the form of mergers or takeovers.

Wa believe the pressures stemming from a sustained low-growth macro environment and increasing competition are pushing the financial sector towards more consolidation," Merrill Lynch advised its clients in a note earlier this

a continued reluctance of Swedes to borrow to fuel spending bas depressed the underlying interest earnings ontlonk for the hanks. Although they are saving strongly, Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits.

"If you look at 1995, eight of the 10 largest universal banks in the Nordic area saw profits before loan losses fall," says Mr Arne Martensson, chief executive of Handelsbanken. "The general outlook is that it is difficult to increase revenues in the banking business in Sweden just now.

The scope for achieving profits growth through cost-cutting is meanwhile-limited because of the relatively high efficiency lysts that another round of numbers sharply - in Nordban-

holdings. For him, the

financial shape.

important factor is to hand

To that end, he expects

year, having paid off a

which SKr4bn is still

SKr10bn internationally

outstanding. Its Swedish property holdings are on a

stable footing and the state

stands to recoup about 45 per

Securum to be debt-free this

syndicated refinancing loan, of

over the company in good

ken's case by 20 per cent. Handalsbanken heads the European expenses-to-assets league with a ratio of well under 1.5 per cent. SE-Banken is close behind with less than 2 per cent. The banks must therefore look elsewhere for growth potential. Handelsbanken has forged its nwn path by moving decisively into Finland and Norway, where it has bought up local outlets in pursuit of its ambition to be a full-service, pan-Nordic hank, SE-Banken also has international

Moves towards merger or takeover could be in the offing

ambitions, although is much more tightly focused on the corporate- and investmentbanking operations of its Enskilds unit.

Nordbanken and Swedbanken, meanwhile, are firmly focused on the domestic retail and small- to medium-sized corporate markets. They are agency analyst, "really butting

But to gain a decisive advantage over their competitors, strategic moves towards merger or takeover could well be in the offing. Not many expect a "mega-merger" of the type which saw the creation of Merita Bank in Finland, when that country's two biggest banks joined forces. But other moves could be on the cards.

Both Föreningsbanken, the smallest of the big five banks, and Stadshypotek, the recently de-mutualised mortgage house, are the main objects of speculation Swedbank and Nordbanken are often seen as the likely

respective suitors. Swedbank already has the market-leading mortgage institution in the shape of Spintah, but could strengthen its position in other markets through a link with Föreningsbanken. Nordbanken, meanwhile, could well be attracted to Stadshypotek, which would help it mount a much stronger mortgage challenge to its chief rival,

Swedbank. These are but two of the potential scenarios being canpassed at present. Others could well emerge as 1996 progresses.

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The doubts have subsided

Few companies can have started life in such inauspicious circum Securum. Created in 1992 as a repository for SKr67bn in non-performing loans from Nordbanken - the hardest hit of the commercial banks in Sweden's worst banking crisis Securum earned the dubious distinction of becoming the country's first "bad bank".

The portents looked even bleaker when it sank to a SKr12.9bn loss in its first six months. The figures intensified fears about the difficulties of nuravelling a hotchpotch of problem credits which included a sheaf of properties in far-flane locations and stakes in a diverse array of Bwedish industrial operations.

Three years on, the doubts have subsided. A combination of prudent asset management. indicious sales and low interest rates has put Securum well ahead of its brief to realise the value of all its oldings within 15 years. Indeed, Mr Jan Kvarnström Securum president, expects to wind down its administration to a small core by the middle of 1997. The Swedish state. which pumped in SKr24bn nf capital when Securum was founded, had envisaged the equity being written off by the and of the 15 years. Now, to return about SKr11bn to the

"That is a very different outcome from delivering zero in 15 years, which was the initial target," says Mr Kvaruström. He attributes the success to Securum's practice of resisting fire sales and its habit of taking an active management role in the husinesses it controls. By filling key management positions with its own appointees and closely onitoring performance be believes Securum has "created value" throughout its portfolio. While the concept of

building "work-out" companies to handle sour credits is not new, Mr Evarnströ believes this bands-on approach to asset "The French and the

Japanese have experienced recent banking crises and I'm a hit surprised they have not been more interested in studying our set-up," he says

wryly. Securum's assets are concentrated in three principal areas: shareholdings in industrial companies, constituting about 35 per ceut of assets; Swedish real estate, representing 28 per cent; and international properties, with 19 per cent. The bulk of the international property estate portfolio is in the UK and the disposals programme has been completed. Mr Kvarnström suggests Securum will claw back the entire £200m equity injection made by the Swedish government at the outset.

Across Securum, the disposals process has quickened rapidly this year. Assets totalling about SKr9bn were sold in the first four months, against SKr18bn in three years up to 1996. Among them were a 6 per cent stake in Akzo Nobel, the Swedish-Dutch chemicals group; a 20.6 per cent stake in Esselte, the office equipment supplier; and Addum, an industrial development company. Securum retains a SKr40bn assets stockpile, including a 13.2 per cent stake in Akzo and a wholly-owned Swedish real estate subsidiary. Castellum, which owns about 900 properties. In December, Sweden's state

Bank Support Anthority, set up in 1992 to oversee the rescue of the banking system merged Securum with Retriva the "bad bank" set up to unwind sour loans of SKr43bm taken out of Gota Bank. The deal prompted the restructuring of Castellum and Kungsleden, Retriva's main property arm. The former was reshaped into a pure portfolio property company and the other focused on real estate sales, a change that Mr Kvarnström says brought significant synergy effects.

The long-term aim is for Castellum to be spun off, possibly via a stock exchange listing, and for Kungsleden to be gradually wound down. But Mr Kvarnström stresses this is some way off. Both companies are likely to form part of the

residual undivested operations when Securum's administration shrinks from its current 105 people to about 20 next year. The company.

offers little detail nn how its "post-Securum" holdings will be managed, and by whom. Despite the widespread praise that has greeted Securum's progress, doubts persist about the long-term future of some of the less attractive segments of Securem's portfulio. Mr Björn Westberg, a former Securum executive and now head of investor relations at Nordbanken, says: "Yes, they can sell 90 per cent of tha

assets but the problem is what ts left. What happens to the 10 per cent that are left over?"

cent of its outlay. In the words of one senior Securum executive, it is an

achievement no one thought remotely possible a few years

Greg McIvor

The Financial Times plans to publish a Survey on

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SEEE PARTY.

Nordbanken

Important symbol of recovery

If the recovery at Nordbanken rebound would not have been continues to progress smoothly, it can only be a matter of time before the government decides to press the privatisation button again. Last antumn, it successfully sold a 34.5 per cent stake in Nordbanken to domestic and international investors, raising SKr6.7bn in the first stage of a strategy to return 100 per cent of the bank to the private sector.

It was an important symbol of a broader recovery in the Swedish financial system because Nordbanken was the biggest victim of Sweden's banking crisis and would bave collapsed under a huge burden of bad loans in 1992 without a state bail-out.

Since the partial privatisation, the bank's financial performance has continued to improve while healthy yield, have soured above SKr125 from a sale price (to institutions) of SKr92. Swedish individuals, who bought shares for a discounted SKr85 have done even better.

The state has built further Nordbanken privatisation proceeds into its budget plans, but has yet to set a timetable for the sale of its remaining 65.5 per cent holding. Given that this stake is today worth SKr17bn, most analysts believe it is more likely to be sold in two tranches than one. A strong possibility is that the next stage will be launched on the back of the bank's half-year figures, due in late Angust, although much will depend on the direction of Swedish interest rates at the time.

It would be too glib to say that Nordbanken has progressed from basket case to showcase, but it has certainly achieved a turnaround that few would have thought possible three years ago,

This owes much to a general upturn in the Swedish banking and corporate sector that has seen credit losses fall to more normal levels, as well as to vigorous cost-cutting. But there is no doubt that the as quick or as spectacular without extensive state support along the way - in articular the setting up of

"bad bank" Securum. Nordbanken today is one of Sweden's four largest banks, with a customer base comprising 3.7m private individuals, 140,000 small and medium-sized companies and more than 30,000 organisations. Its market shares have been bolstered by it already has, rather than grow its client base dramatically. Two areas where it believes it has scope for growth are fund management and mortgages. It also aims very specifically to be the "best bank for small and medium-sized customers. One area to which the bank has given a great deal of attention is its distribution

will pay lower transaction

costs and have additional

products under the

Postbanken" name.

opportunities to market its

Like its fellow Swedish

banks, Nordbanken has had

conditions, characterised by

and. Yet despite these

quibble with the quality of its

profits were up 23 per cent at

SRr5.9bn. Credit losses were

down 42 per cent to SKr1.27bn, or just 0.5 per cent

of lending. It was a long way

when the bank suffered credit

losses of SKr19.3bn, or 7 per

cent of lending. Return on

the bank to pay SKr1.6bn in dividends, or 38 per cent of

net profits, in line with its

dividend of between 30 and 50

per cent of profits to avoid an

excessive build-up of capital.

would argue that the hank is

There are still those who

overcapitalised - with a

year-end capital adequacy

ratio of 14.4 per cent - but international credit rating

agencies continue to view it

Progress continued in the

first quarter of this year, with

operating profits rising 30 per

cent to SKr1.56hn. The figures

were helped by a further

lower costs, although the

That is why the bank was

particularly encouraged by

corporate horrowing after a

If this trend is shown to

have continued in the second

government to proceed with

quarter, it will make it all the

improvements in both

evidence of increased

long period of subdued

more tempting for the

demand.

reduction in loan losses and

scope for substantial further

categories is now decreasing.

cautiously following its

problems earlier in the

commitment to pay a

equity was 23.7 per cent.

from the dark days of 1992

fierce competition, narrow

margins and weak loan

difficulties, few would

1995 figures. Operating

to endure tough market

base. On top of 300 Nordbanken branches, it bas a collaboration with the Swedish post office, which



Nordbanken: one of Sweden's four largest banks

Bank, the other main casualty of the Swedish banking crisis. Nordbanken says it intends to keep a tight focus on the Swedish market and it rules out expansion even into neighbouring markets such as Norway and Finland, where two of its rivals. Banken and Svenska Handelsbanken, are becoming

Skandinaviska Enskilda more active.

A key aim is to do more business with the customers has a further 1,300 ontlets,

and a fast-growing telephone banking system which boasts 220,000 customers. Nordbanken believes lts collaboration with Sweden Post gives it plenty to go for because more than 75 per cent of the 500,000 people a day who use the post office are not Nordbanken customers. The bank says a recent

the next stage of the renegotiation of its post office privatisation. agreement will provide Christopher Brown-Humes increased benefits because it

■ Niche banks: by Hugh Camegy

Low cost base is the key

Many Swedes have responded with enthusiasm to the promise of high returns offered by the new operators

Like the profusion of mushrooms which sprout in Swedish forests during the autumn, a crop of new "niche" banks has sprung up in the country in the past 18 months.

Fertilised by deregulation, which has allowed all kinds of institutions to gain a banking licence, and the opportunities presented by new technology, a number of insurance compa nies and retailers have opened specialist banking services aimed both at exploiting their own existing customer bases and at raiding the clients of the traditional commercial

include the three iosurers. Skandia, Trygg-Hansa and Wasa, the recently de-mutualised mortgage institution Stadshypotek and the Swedishbased worldwide furniture retailer Iken, which has started a niche bank called Ikanobank

The new banking operators

Typically, these operators have set up shop combining premium interest rates on deposits with specialised credit and payment services tailored to their own core husinesses ~ such as mortgage loans and insurance-based savings poli-

The key to their operations is their low cost base achieved by working via the telephone and confining their services to electronic transactions, thus keeping staff and fixed costs to

Apparently undeterred - perhaps even encouraged - by conducting bank husiness over the telephone, many Swedes have responded with enthusiasm to the promise of high returns offered by the new participants. Deposit interest rates at the telephone banks are still as much as 2.5 percentage points higher than those offered by the traditional banks, depending on the class

and size of saving. By April this year, the new operators had taken about a 3 per cent share of the SKr405hn market for household deposits in Sweden. The established banks have tended to downplay the impact of the newcomers, arguing that the market share of the niche banks as a proportion of the total retail banking market is very small and already shows some signs

But the old banks have responded by themselves opening in-house telephone banks offering premium deposit interest rates in an attempt to hlunt the new competition.

The newcomers, meanwhile, argue that they are pioneering the future of retail private

ance policy bolders.

months ago by Skandia, the country's leading insurance group. It now offers a wide range of services from the core savings accounts, through car finance, mortgage loans and asset management to automatic premium payments schemes for Skandia's insur-

"They call us a niche bank, but we are only a niche bank in the sense that we don't do corporate hanking. We do almost everything for the private client." says Mr Göran

Lenkel, chief executive. Skandia Banken has grown

The new banks do not all share the same strategies, however. Skandia Banken, for example, is an additional service within the Skandia group. rather than an integrated part of the whole.

Mr Lenkel describes it as "an island" which can defend. exploit and expand Skandia's customer base - but which will not be used as a tool to lock cuslomers into Skandia by cross-subsidisation between insurance and banking ser-

By contrast, Trygg-Banken

Swedish mene	170	IIIA3	- 131612 Jr	et snare	whin 12	90		
			Market	Skandia Bankan	Wase Banken	Trygg- Banken	Stadshypotek	lkanobanken
Lending to household	8	SKr	170 bn	2.6 bn	288 m	47 m	-	527 m
		%	100	1.52	Q.1 7	0.03	-	0.31
Household deposits		SKr	405	4.5	1.8 bn	553 m	1.9 bn	739 m
		%	100	1.12	0.46	0.14	0.48	0.18
, excluded wouldaider							Stenen 5	Stateters Department



ording to Datamonitor, 11 per cent of all Sweden's banking ners use telephone service

banking services. According to Datamonitor, Sweden now has the highest telephone penetration in Europe after Finland, with II per cent of all banking customers using telephone ser-

The higgest of the new banks

to 90,000 customers, a total that exceeds its original target for the first three years of operations. Half its clients are existing Skandia policy holders, the rest it has attracted

from elsewhere.
The bank employs a total of 210 employees to service these customers. Its deposits totalled SKr5hn by April, while lending had reached more than SKr3bn. Virtually all business is conducted over the telephone - and 70 per cent of calls are handled on a self-service basis, In other words, customers calling in complete their inquiry or transaction using the telephone's touch-tone

"We aim to get this proportion up to 85 per cent," says Mr Lenkel. "The customers are willing to do it because they know it is the reason they get a better deal from us."

Exploiting electronic technology is vital to the low-cost advantage of the niche hank operators. Skandia Banken will later this year introduce interactive services for customers using their home PCs - linked via modems to the bank's own computer network.

The banks are also studying the potential for servicing cli-Bank, the smallest of the uniis Skandia Banken, started 18 versal banks, has already pio-

the bank opened say manufes ago by Trygg-Hansa, is designed as a hub within the group which will be a vital link in Trygg's development of a

full range of financial services. Trygg-Banken offers full payments services - traditionally a loss-making side of banking - with the intention of becoming a "one stop shop" for customers, serving everything from salary and household payments to savings and insurance products.

Mr Yngve Andersson, bead of Trygg-Banken, acknowledges this is initially expensive, but says the pay-off will come through inducing customer loyalty. "The costs of on board is five times the cost of deposit-only customers. But we feel these customers will not leave us, Loyalty will be high. We are huilding for the future," says Mr Andersson.

Whatever the differences in approach, the niche operators have one thing in common. They believe their "distance" - or "do-it-yourself" - banking system, with simplified, technology-based services and conditions, is the way of the future. If they are right, they surely foreshadow further painful restructuring for the traditional, local branch-based retail banks.



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Stadshypotek

Ownership issue is significant

No one is quite sure whether Stadshypotek AB, Sweden's largest mortgage bank with a 30 per cent share of the domestic market, really is a state-controlled bank – but the government assumes that it is and announced on June 11 that it plans to sell the 34 per cent of the banks's shares which it believes its owns in order to help fill a hole in the indget.

"The Swedish credit market is on the threshold of major structural changes," wrote Mr Lars Wohlin, managing director until his retirement in May, in the 1995 annual report, a prescient remark in the light of recent developments.

Stadshypotek, which became a public company in 1993 and obtained a stock exchange listing in 1994, is a sizeable institution. It has assets of Skr318hn; a cepital base of Skr21.4hn and equity capital of Skr37.6bo; a core capital ratio of 10.9 per cent; and the Skr3.06hn pre-tax profit in 1995 gave a return on equity of 13.3 per cent.

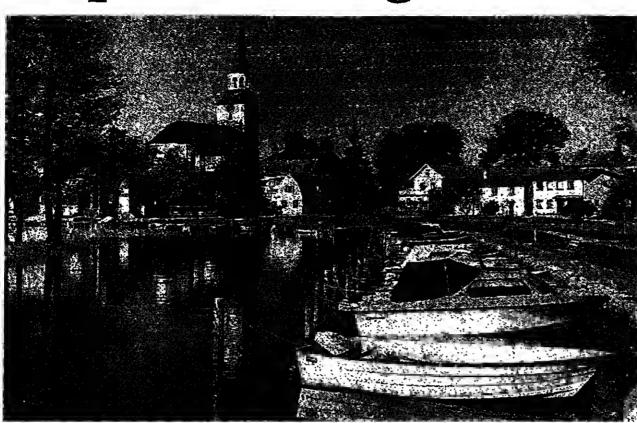
How the ownership of Stadshypotek is finally settled, therefore, is a matter of some significance for the future of the Swedish banking

Mr Hans Dahlgren,
Nordbanken's chief executive,
has made it no secret that he
has an acquisitive eye on the
mortgage bank. If he were to
get his way, it woold create a
bank which would loom very
large indeed on the domestic
scene, But there are many
other possible solutions and
the government has given no
indication of how it will
dispose of the shares it
believes it owns, or to whom.

If it seems odd that there should be any doubt about who owns Stadshypotek, the explanation lies in the peculiarly Swedish character of the institution from which the hank in its present guise has emerged.

nas emerged.

It was founded in 1909 as an association of borrowers, a "mortgage mutual". Dottl 1993, when it was converted into a pohlic company, it consisted of 20 regional associations, responsible for lending, and a central unit,



Picturesque nomes on Lake Melaren. The end to subsidised mortgages caused Sweden's market for new housing to collapse Paus Per

proceeds to shore up the

hudget was the first time that

said: "This money is ours." It

a government had actually

remains to be seen whether

challenge the government's

Stadshypotek bas become a

commercial banks no longer

send customers over to Stadshypotek. They have their

competitor in a highly

competitive market. The

own mortgage finance

subsidiaries, which are

exploiting their extensive

branch networks to win new

Mr Bergquist says that the

Stadshypotek thinks it has

substantial market share

attributes its success to the

mortgage bank's cost

done well to maintain such a

against fierce competition. He

mption in the courts.

borrowers will emerge to

In the meantime.

Konungriget Sveriges
Stadshypotekskassa (Urban
Mortgage Bank – URM),
responsible for funding hy
bond issue. But although it
was a self-owning association
of borrowers for its first 84
years, it became, so to speak,
the government's poodle.

Firstly, in 1909, it gained certain tax privileges, a fact which in 1993 led the government to argue that It had a right to claim ownership of half (at that point) of the equity, with the borrowers entitled to the rest.

Secoodly, in the regulated post-war banking world it was, as Mr Christer Bergquist, deputy managing director, put it, "not so much a loan-generating as a loan service company." Mortgage loans were subsidised. The commercial banks automatically referred customers to the mortgage associations. The insurance companies were legally obliged to huy the mortgage

bonds sold by UBM and its

colleagues.

Stadshypotek had a 40 per cent share of this market which, however, was radically changed when the government stopped subsidising loans in the early 1990s. Stadsbypotek had to change equally radically. It was converted

The commercial banks no longer send customers to Stadshypotek

into a public company in 1993, when UBM became sole shareholder. In 1994, UBM issued half the existing equity to the borrowers and then made a new share issue and obtained a stock exchange listing. Ownership was spread. The outcome was to leave UBM with 34 per cent and foreigners currently own about 17 per cent.

Mr Bergquist says that the government's statement on June 11 that it intended to sell UBM's shares and to use the mortgages caused the mark

The end to subsidised mortgages caused the market for new housing to collapse. In 1992 and 1993 only about 5,000 new houses or apartments were built a year and although the figure rose to about 12,000 in 1995, this is far below what Mr Bergquist regards as normal – about 40,000 a year.

At the moment, therefore, mortgage repayments exceed oew lending. Stadshypotek's loan portfolio has shrunk hy about Skr25hn to Skr296hn over the past two years. But after two years in the red in 1992 and 1993, when the collapse of the housing market and the finance industry crisis caused loan losses to soar, Stadshypotek made a comfortable profit in 1995 - and a first-quarter operating profit this year of Skr732m points to another satisfactory

Hilary Barnes

PROFILE

Enskilda

A prominent role

Are regional merchant banks inevitably gotog to struggle in a world increasingly dominated by big US and European investment houses with capital strength and global reach?

If the answer is yes, you might think Enskilds, the international merchant banking arm of Skandinaviska Enskilds Banken, to be a prime merger candidate in the wave of consolidation sweeping through the industry. If no, you could point to the company's considerable strengths as an argument that it can cootinue to operate both profitably and independently.

independently.

Ask Mr Jacob Wallenberg,
Enskilda's chief operating
officer, how he sees the
situation and he chooses his
words carefully: "We don't
have to go with someone else.
It's not a foregone
conclusion, but it's not

totally excluded," he says.

Should it come to a tie-up,
Enskilda can at least talk
from a stronger position than
It had three or four years ago.
Then, not only was the parent
bank burdened by huge bad
loans that brought it within a
whisker of a state bail-out,
but the hig international
merchant banking houses,
such as Goldman Sachs,
Merrill Lynch and Morgan
Stanley, started to seek
husiness aggressively in the

husiness aggressively in the Nordic countries.
Operating in this more competitive environment has forced Enskilda to sharpen up its act and market itself more aggressively. This has brought a recovery in its fortunes, and it is now meeting a target of producing a return on equity of more than 15 per cent.

Enskilda says its advantages include a sirong regional base, long-term client relationships, healthy market shares and high rankings in a wide number of different areas. For example, it is oumber 14 worldwide in foreign exchange and oumber three in European cash management. In mergers and acquisitions advice, it

dominates the Swedish domestic market, and was ranked number 10 in Europe last year.

These achievements make Enskilda the leading Nordic-based international investment bank. Outside the Nordic region, its office network spans London. New York, Paris, Frankfurt, Tokyo, Hong Kong and Singapore, London, with 400 staff, is by far the most important of the non-Nordic offices, and is seen by Mr Wallenberg as "a funnel of know-how and ingenuity into the Nordic region."

Amplifying the global coverage, the hank has an alliance with Blackstone in the US, covering advisory services in North American Northic mergers and

If Enskilda did not have this reach, it is arguable whether it would have had such a prominent rule in the recent initial public offering of Scania, the Swedish truck group. In one of the most prestigious offerings to come out of Sweden in many years, Enskilda was appointed joint global co-ordinator alongside SBC Warburg and Morgan Stanley. Had there been doubts about its placing power outside the Nordic region, it might have had a more limited role.

more limited role.

"Two years ago it would not have been a foregone conclusion that Enskilda would have been a global co-ordinator of the Scamia offering," says Mr Peter O'Kane, director of Enskilda Securities in London, He says the mandate shows the group is marketing itself more successfully to issuers, and getting the message across that it has a good distribution base to

international institutions.
Other hig deals in which
the group has been involved
include last year's merger of
Pharmacia and Upjohn, the
drugs groups, and the
purchase of part of the
research and development
activities of the UK group
Fisons hy Astra, the
fast-growing Swedish

pharmaceuticals grouplnevitably, Enskilda is accused of acquiring a lot of its husiness simply because of the historical links between the bank and the Wallenberg family, Europe's pre-eminent industrial dynasty.

industrial dynasty.

But Jacoh Wallenberg (soo of Peter Wallenberg, the current patriarch of the empire) says: "This is ooe of the higgest fallacies around. Our problem is that we have to work harder to get Wallenberg husiness than to get other clients." He says the bank has a lower market share of deals involving Wallenberg companies than

other Swedish companies.

Mr Wallenberg says he is most proud of the fact that the group's research team is now ranked second in the Nordic region (after Alfred Berg). This is because it was hit hy a large number of research-team defections a few years ago. But he emphasises that the group cannot be all things to all people. It has deliberately avoided involvement in some areas, such as Eurobonds.

The bank has clearly indicated its wider Nordic ambitions by setting up sizeable offices in Oslo and Helsinki in the past two years. In its first year, it gained 8 per cent of equities trading in Helsinki and it is number one in fixed income in the longer term. Mr Wallenberg believes the group's home base could evolve to "Baltic" from "Nordic" as markets develop in the Baltic states, northern Russia and eastern Europe. He also believes the group has significant opportunities in south-east Asia, where

in south-east Asia. where many of its corporate clients are active. The amhition, says Mr Wallenberg, is to be "significantly larger in a Nordic context and significantly stronger in certain selective products ontside the Nordic region." That also means the bank will reduce its emphasis in some areas, although it is oot saying yet what they will be.

Christopher Brown-Humes

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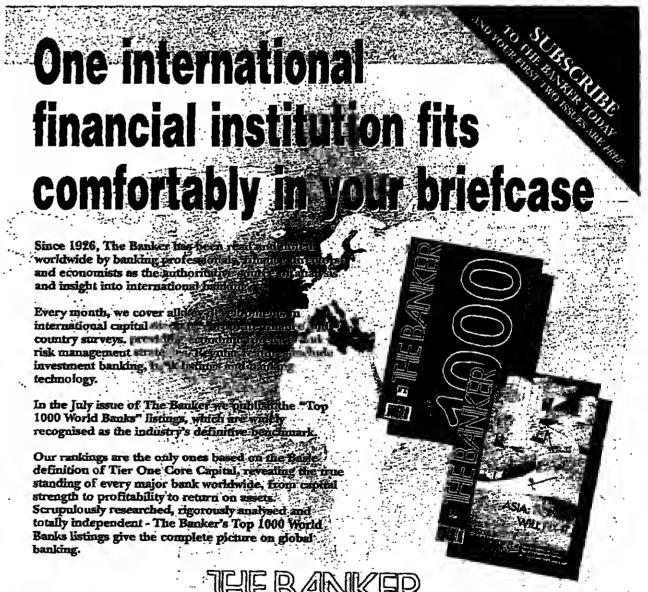
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Period of transformation

There is an atmosphere of almost frantic activity as various participants seek to position themselves for the future .

War Name

The state of the s

For Swedeo's insurers - like the country's banks - the 1990s have proved to be a difficult. sometimes traumatic period.

As recently as last year, the two biggest groups, Skandia and Trygg-Hansa, were both still in the throes of overcoming structural problems caused by loss-making ventures into

Meanwhile, at home, the insurance sector is facing a challenging and fast-changing operating environment. Deregulation and new conditions in savings markets have opened up enticing growth opportunities, particularly in the life business

"The whole market is in a state of rapid transformation with new products being created rules for insurance companies changing and a new national pension scheme being introduced," commented Gold-man Sachs in a review of the sector earlier this year.

Among the changes: The allowance of unitlinked insurance: · Liberalisation of banking laws to allow insurers to open

their own deposit-taking banking operations; Cuts in Sweden'a hitherto all-embracing welfare system

which have boosted demand for private pension and other long-term savings products; The state pension, or ATP, system is due to be reformed next year in a way likely to result in a role for the private

• Next year, legislation is set to allow traditional life assurance operations to be run as

sector in ATP fund manage-

for-profit operations. These changes have blurred the lines between the traditional banking and insurance sectors - opening up the insurers to competition from the banks no less than the insurers. now have the chance to compete directly in banking services previously barred to

Insurers also have to bear in mind the potential threat of nificant --- international - Skandia, echoed the frustranewcomers from abroad - especially with the looming advent of European monetary union, which is likely to render all kinds of financial services

more transparent.
The result is an atmosphere of almost frantic activity as various participants seek to position themselves for the future. The insurance companies have been busily remodelling to ensure they have the right structure to cope with the challenges facing them.

The biggest Swedish group - with premium income of SKr52bn and operating profits



Hospital care for the elderly: cuts in the welfare system have boosted demand for insurance - vecun rus



Björn Wolrath: echoed the frustrations of many in the sector

of SKr550m last year - is Skan-

'Skandia' only finally put behind it an expensive foray into reinsurance in the US when it wrote off SKr2bn in 1995 to complete the sale of its US reinsurance vehicle SARC. But Skandia remains the only Swedish insurer with sigoperations; 75 per cent of its

business is outside Sweden. It - not just Sweden - as its home market, with life and non-life operations in Norway, Denmark and Finland. Its AFS life and savings unit has business spread around the world, including in the US and the UK, with unit-linked and life premium income of more that SKr23bn in 1995.

By contrast, Trygg-Hansa has become almost completely Sweden-oriented aince it retreated last year from a highly costly venture into the

US market through Home premium value of SKr10bn. Holdings - a venture since The insurance compahived off to Zarrich Insurance. nies - and their bank competi-

tors - ara constantly looking

for new products in areas such

as pensions, health insurance

and income replacement meur-

ance to fill the gaps increas-

budget-driven cuts in the gov-

ernment welfare programme.

is called "competence" insur-

ance. In the age of high unem-

ployment and low job security,

the idea of "competence" insur-

ance is to build up savings to

be deployed to cover retraining

costs for workers to enhance

their job skills.

ingly subject to the effects of

One of Skandia's latest ideas

But Trygg has been busily restructuring to meet the future, de-mutualising its life business and merging the life and non-life operations into one streamlined organisation. Likewise Wasa - having seen off a takeover attempt by Trygg this year - has arranged the buy-out of its life policy holders by its non-life organisation to achieve a similar untfied structure.

For all the insurers, the fundamental feature of their sector today is the contrast between the profitable, but mature non-life operations and the fast-developing life and savings operations where the real growth potential lies.

The former, in which the mutuals Lansforsakringar and Folksam are the main players alongside Skandia, Trygg and Wasa, accounts for total annual premiums of SKr32bn, split about 60-40 commercialpersonal.

The life and pension insurance sector has total premiums of some SKr55bn a year and is expanding rapidly. Mr Björn Wolrath, chief executive of tions of many in the sector over the uncertainty over tax considers the Nordic region and other rules governing new

"Instead of long-term, stable rules, each year we are handed down new changes to the web of rules and regulations and this is having an adverse impact," Mr Wolrath com-

But still, growth is evident. Some estimates suggest the anticipated ATP changes will add SKr15bn to the private occupational pension business. doubled in 1994 to an estimated

PROFILE

Rushing to re-model itself

Mr Lars Thunell, chief executive of Trygg-Hansa, must have created some kind of speed record for a failed takenver bid when he attempted to swallow rival insurer Wasa early last

On Tuesday May 7, be launched a two-pronged move on Wasa by proposing a SKr1.5bn bid to buy in Wasa's non-life policy bolders, while offering a merger with Wasa's life assurance operations. The deal would have created a group with more than 30 per cent market share in Sweden - compared with Tragg's 20 per cent - and a real challenger to Skandia market leadership.

Wasa executives reacted with indignation to the Trygg hid, which they dismissed as an opportunist grab which was, in reality, worth less than one third of the price offered. Representatives of Wasa policyholders agreed and on Thursday May 9 voted unanimously to reject the Trygg offer, which duly fell.

If there was a note of irritated impatience in Mr Thunell's abortive bid for Wasa, it stemmed from Trygg's anxiety to calch op ground lost during a series of disastrous investments in the first balf of the 1990s. Under Mr Thunell, who was appointed in late 1994, the group has been rushing to re-model itself to meet the increasing competition in the

financial sector. . Trygg's trail of woes began with ill-fated forays into banking and credit insurance in Sweden just before the

1990s. 11 took control of Gota AB, parent of Gota Bank, and Svenska Kredit only to see them collapse in 1992 under the weight of loan losses. And in 1991 it bought into Home Holdings, one of the biggest property and casualty insurance companies in the US, only to see Home fall into heavy losses. These tovestments cost the company accumulated losses of

Mr Thunell was well suited to clear up the resulting debris: bis previous job was as bead of Securum, the "bad bank" set up hy the government to nawind the

bad loans of Nordbankeo. Within weeks of taking over at Trygg be arranged a deal to exit from Home by haoding it off to Zurich Insurance. Then be sel about rebuilding Trygg out of the rains of its failed ambitions.

"The company basically lost half of its equity through these problems and didn't really earn anything during the period." be says. "But throughoot, the basic core Swedish insurance business was profitable. So after sorting out the problems we looked at what we were good at, to focus on our strengths. and the core was the Swedish

To the 18 months that has passed since the deal on Home with Zurich was struck, Trygg bas recovered its poise. In 1995, the group swung from a SKr3.66bn operating loss in 1994 to a profit of SKr2.75bn. Premium income declined from SKr7.2bn to SKr6.6bn, but this was partly because it ceased writing new Underwriting losses fell from SKr1.3bn to SKr550m.

Boosted by this improvement in performance and in halance sheet strength - Mr Thunell moved to restructure Trygg's complex organisation by merging the Trygg-Hansa Life operations, hitherto a motual company, into the Trygg-Hansa parent through a SKr1.15bu takeover of the

former by the latter. The purpose was to simplify the organisation, gain "literally billions of kronor



Thunest: set about rebuilding Trygg from the ruins of its failed ambitions

and allow Trygg to take maximum advantage of deregulation which has opened up new savings markets on the life side of the business. "Il means we are one company - one organisation - and it means we can position ourselves for

the future." says Mr Thunell.
"Life is where we are going to have growth. The non-life sector is mature and is not going to grow very much."

Trygg's intention is to be a "one-stop sbop" for financial services. Its advertising slogans proclaim it to be the "supermarket of life". It is also experimenting with technology-driven sales outlets such as the Internet and interactive video kiosks. A key part of its new services is Trygg-Baoken which. onlike other newly-opened "niche" banks offers payments services as well as savings products.

Mr Thunell's agenda is ambitioos. But be knows the competitive pressures are sueb that organic growth alone will not ensure Trygg' future. Hence his

unsuccessful grab for Wasa. These days, you bave three eboices," he says. "To link op with another Nordic insurer. or with a Swedish bank or become, eventually, a branch of one of the big international insurers."

Clearly, his intentions lie in the first option. The move oo Wasa may have failed, but it is unlikely to be the last strategic effort by Mr

Hugh Carnegy

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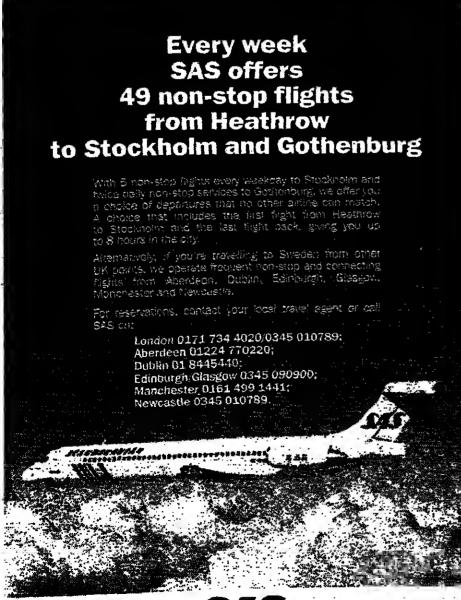
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Capital markets: by Hugh Camegy

dynamic exchanges

Since 1992 the share of foreign ownership in the market

capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent

in the Stockholm bourse and the OM Stockholm options and derivatives market, Sweden bas two of Europe'a most

Both are run as for-profit, publicly-listed operations, and both are leaning beevily on technology to secure expanding niche in today's bighly international and creasingly deregulated capital markets. They run electronic trading - neither any longer bas, a trading floor - and bave extended their reach beyond Sweden in the bld for growth.

In future, their fates may well be even more entwined then they are today. OM Group, founded by Mr Olof Stenhammar, one of Sweden's leading entrepreneurs, is the biggest sharebolder io the Stock Exchange with a 21 per cent stake. Both organisations speculate that in time co-operation between them is likely to

The Stockbolm Stock Exchange, still based in the quaint old wood-panelled bourse in the Old City opposite the Royal Palace, has undergone sweeping changes in the 1990s. Apart from its own shift to quoted status and its move to electronic trading, the biggest transformation prompted by deregulation has been a surge of foreign investment in

Since 1992 - the last year of any restrictions on foreign investment - the share of foreign ownership in the market capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent. In the same period, market capitalisation has more than doubled to SKr1.180bn at the end of last year. Several leading Swedish companies are now more than half-owned by foreign inves-

Investing

in the

Nordic Region?

Handelsbanken

Mutual Funds

Outstanding performance

according to Micropal (May-96)

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Handelsbanken Markets

Mutual Funds

Subsidiary of Svenska Handelsbanken



1992

206

558 562

236

155

...72

131 172 339 659 655

1,163 2,148 4,944 6,650 5,981

158

custom. In the past year it has

admitted 11 "remote" members

in London, Denmark, Norway,

Finland and Switzerland,

allowing them to trade on the

exchange from their offices in

their respective countries.

account for about 10 per cent

exchanges think remote trad-

ing is a threat, but we think it

is an opportunity," says Mr

Högborn. "Some of our existing

members were not keen either,

thinking they would lose busi-

ness. But the remote members

have brought in new investors

and new husiness and most

now accept that the overall

Like the stock exchange, OM

also has a firmly international

footing. The group is made up

cake has grown."

of turnover on the exchange.

members already

know some Ruropean

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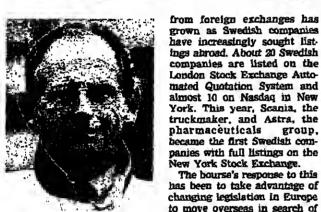
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206 228

17 23 ,43 41

Stockholm Stock Exchange - key ratios

Share turnover SNY funi Volume of shares traded (m) Market caroliellesson (SKr brit Other exphange tracing Eskr brit. Stock Exchange revenues (SKr bn) Average Number of amployees



has been a big factor in the explosion in volumes from an average at the start of the decade of SKr500m s day to SKr4bn today - more than one third is accounted for by overseas investors. "in the last three years, foreign investors have pumped SKr100hn into Swedish stocks," says Mr Carl Johan Högbom, the exchange's products and trading chief. "In the same time we have had a total of SKr90hn in new issues - so you can see bow we depend on foreigners now."

But the exchange has not been cootent simply to watch the foreign money flow in. At The arrival of the foreigners the same time, competition

the world's leading supplier of electronic trading systems to other exchanges around the world. But the exchanges have been driving forces in the OM story. Their network is still expanding as OM Stockholm now has links with the Oslo bourse, the Finnish options exchange and is operating the Norwegian-

Swedish and Finnish electric-

ity exchanges, which have

exchange in London and is also

ened following deregulation of energy markets in the Nor-The sverage number of contracts traded per day on the OM exchanges rose to 176,000 in the first three months of this year - a 30 per cent rise over the same period last year.

OMLX accounts for about 10 per cent of the turnover. Mr Per Larsson, who this year took over as chief executive from Mr Stenhammar. says the strategy is to be the main marketplace for trade in Nordic instruments - with OMLX acting, like the stock exchange remote members, as the conduit for international investors to the Nortic markets rather than as direct competition to, for example, the Liffe exchange in London.

But Mr Larsson does envisage spreading the acope of instruments traded. "We use the term universal marketplace," he says. "That means we think that in future there will be no such thing as spe cific exchanges for different types of instruments."

In Sweden he sees an advantage in this respect. "We have a regulatory regime where we can do all financial services under one authority - unlike in the US where you have different authorities supervising different markets." But the vision of the "univer-

sal market place" raises the question of the relationship between OM and the Stockholm stock exchange. "OM is potentially our most dangerous competitor," declares Mr Hogborn. "They could start trading in equities tomorrow. But then, so could we start trading futures and derivatives."

Equally, the two operations could mova towards merger. But neither side sees this happening in a hurry. "Possibly certain operational parts of the exchanges could merge," says Mr Larsson, "But we are a long of much more than just the way from a merger of the over-Stockholm options exchange: it all operations."

Preparing for Emu: by Hugh Carnegy

The planning takes into account two scenarios: One, that Emu will go ahead with Sweden included, the other that Emu will go ahead, but initially without Sweden

"Even for an institution with roofs that date back to 1660 this is a big event," laughed Mr Stefan Ingves, deputy governor of the Riksbank - the world's oldest central bank.

The event be was referring to was the advent of European monetary union. Uncertainty may still surround the project from the technical issue of which countries will qualify to enter, to the political issue of which countries will want to enter. But the Rikshank and Sweden's commercial banks, like their counterparts elsewhere in Europe, are assuming for planning purposes at least that Emn will begin on schedule in 1999.

Sweden's own position on Emn is far from clear. First, it is by no means certain that Sweden will be accepted as having met the necessary criteria by the qualification date of 1997. Secondly, there are strong domestic political

The Social Democratic government has declared that the Riksdag will take the final decision on Swedish membership. Mr Göran Persson, the prime minister, is in favour of joining. But there is strong opposition within parliament the SDP and in the country at large. With a general election due in late 1998, Mr Persson may find it easier to postpone the issue until after the election - In other words, delay Swedish entry until a projected second round of Emn admission early in the next century.

A complication could also arise over the likely need for a change in the constitution. The complex rules surrounding a change in the constitution offer Emn's opponents a greater chance of putting the issue to a referendum. They only need to muster a onethird blocking vote in the Riksdag against a proposed constitutional change to force a national vote on the issue. Given the narrow margin by The Rikadag: complex rules auround a change in the constitution

which Sweden voted to join the European Union in 1994 and the deep split that vote caused in SDP ranks, Mr Persson will try everything to avoid a referendum - includ-ing, quite possibly, postponing the whole issue.

However, the Riksbank and the commercial banks bave privately made the firm judgment that at least a core of ountries will launch Emu at the appointed date - and they must be prepared. Although it is largely inde-

nendent of the government, in line with Emn demands, some features need to be changed in the Riksbank's structures. The bank is under the authority of parliament - not the ministry finance. But it has members of parliament on its board which may not be permissible under the Emn regime. Legislation will also be required to isolate the governor of the bank from tha threat of dismissal by the goverument.
The Rikshank and the com-

mercial banks are meanwhile stepping up preparations on a range of matters from planning a new payments system to cope with the advent of the Euro to the banks' internal strategies for dealing with the new competitive pressures Emu is likely to bring.

"Discussions are going on as in all other European countries," says Mr Ingves. "In cercess is a little easier in smaller economies like Sweden because we have reached a bigh level of computerisation and we do not have so many

the issue until after the election

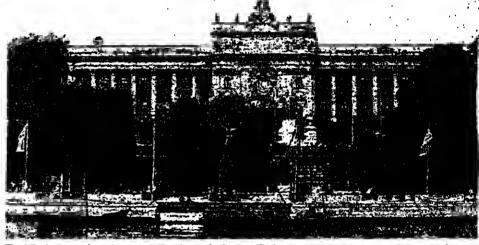
The commercial banks estimate that the process could cost up to SKribn each, with about 50 per cent of the cost accounted for by developing new software systems, 20 per cent by staff training and the rest by hardware costs. The banking association has set up a steering group to co-ordinate work on building a common payments system and other technical and legal aspects of Emn. "Preparing for Emn is like taking out fire insurance," says Mr Per Jederfors. the executive in overall charge of Rmu planning at Skandinsviska Enskilda Banken. "We have to do it now, aven if we do not know exactly what is going to bappen. It will be too late to do anything after the

fire starts burning." The planning has to take into account two scenarios: One, that Emp will eo ahead with Sweden included, the other that Emu will go ahead,

If Sweden stays out initially, the need to change, for example, antomatic teller machines and other payments infrastructure will be postponed. For the banks' own trading operations, the effect on foreign currency trading would be less than if Sweden is in ecause they would still trade krona and many cross-trades - for example, third currencles against the dollar - would be replaced by trading the Euro instead. The higger challenge comes once Sweden joins. For example, the base for foreign currency trading will narrow, croding the local advantage Swedish banks have with their expertise not just in trading the krona, but in the other Nordic currencies.

Mr Jederfors says increased etition generally will be the biggest challenge for the Swedish banks once Sweden is in Emu. With a single currency, the transparency of financial services will increase greatly. Regulatory barriers in Europe to cross-horder banking have already fallen. With a single currency, other, less vislble, cultural barriers are likely to fall, extending competition from foreign players not just to corporate clients hut also to retail services.

This, in turn, may increase the likelihood of restructuring within the industry. "By definition, all European banks are going to be smaller as a result of Emu," says Mr Jederfors. "Today, we measure our performance against the Nordic market. Soon every bank will measure itself against the Rmu market. This seems likely to lead to structural change



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■ The supervisory regime: by Hilary Barnes

Learning from the crisis stock, look at what happened,

Supervision has shifted from being institution-oriented to being

function-oriented Worried? I am always worried - but I am not terrified," was bow Mr Claes Norgren, director-general of the Swedish Financial Supervisory

Authority, cheerfully defined

his present state of mind.

He became director-general in 1993, when the calemity which overtook the Swedish financial markets had already culminated and which is hy now, he says, "past history." It is history. bowever, from which there has been learning.

When I came to this posi-

draw conclusions and adapt the organisation." Much has been done since. Although Mr Norgren does not express it in so many words, it is clear that the supervisors went into decline in the 1980s. On-site inspection had virtually

"Policy was that on-site inspection was meaningless. It was all so complex that you couldn't understand it anyway," says Mr Norgren. There was also a lack of attention to risk management "which was quite logical when inflation paid all the debts."

The culture of inflation had also infected the banks themselves, where the attitude was: "Why care about loan losses when inflation would take care tion I saw my job as to take of the problem," according to

the financial markets underwent an enormous development as the markets were deregulated in the 1980s, there was a clear need for a focus on risk management

One of the lessons of the banking crisis, says Mr Norgren, was "that there were too many spots in the Swedish markels, and especially at some banks, where risk controls were weak and below standard."

Restoring on-site inspection has been an important part of Mr Norgren's programme. He sees it as having at least two useful effects. It is good for market discipline, working in the same way as the sight of e policeman hy the roadside has a good effect on traffic discipline. And it gives the supervipening in the financial mar-

But Importance has been attached to ensuring that the inspectors know what they are doing and will not succumb to the feeling that it is all so complicated that it is beyond them. The Supervisory Authority's latest annual report says that supervision has shifted from being institution-oriented to being function-oriented.

Inspection teams have been formed consisting of individuals who specialise in the types of risk that arise in the activities conducted by each type of institution.

As part of a programme to develop and improve the methadology on inspections, new guidelines have been prepared and last year a supervision

handbook was issued, providing guidelines and check lists for inspections, and explaining how an inspection should be planned, performed and pro-

The main objective of the inspections is to ensure that the internal control and risk management procedures of tha individual banks and other institutions - Sweden's super-

Mr Norgren sees new challenges arising

visors cover the whole gamut of financial service institutions - are in order. If the quality of controls is regarded as unsatisfactory, the supervisors discuss the issue with the management and may request that specific improvements are

Broadly speaking, bowever, the supervisors bave found that internal control and board involvement ere relatively good. Mr Norgren says: "We are rather pleased. We feel that we have achieved some of the ambitions which we set in 1993-1994." While the economic situa-

tion, and with it the financial services industry, has stahilised, Mr Norgren sees new challenges constantly arising for the supervisors, especially

A case in point concerned swap arrangements made hy Skandinaviska Enskilda Banken to limit the damage done by losses incurred by a Luxembourg-based property subsidiary, Luxonen, last year, The supervisors insisted that

with regard to new financial

instruments. Sweden has had

bad cases, but not cases bad

enough to destabilise the sys-

tem", he says.

the swaps were valued in a way which took market values into account The action made a damaging dent in the recovery in early 1995 when the bank was struggling back into profitability after aeveral vears of severe losses, although in Mr Norgren's view the Luxonen case was a credibility thing for the bank rather than a thing

which could upset the bank Meanwhile. Mr Norgren surveys a scane which bas changed radically in the course of a few years. "New banks are opening. There's much more competition. It is all magnificent - good for the consumer: but there will be a tomorrow.

"I think there is probably an excess supply of financial ser-vices in relation to what people demand, and this is a worry. although not from a stabilise tion point of view. But there will be closures of enterprises that are not profitable and it is important to see that there is a soft landing." he said

Servicing the national debt: by Hugh Carnegy

ender sentiment shifted

A sense of having weathered the storm is palpable among Riksgälds Kontoret officials. Now they are able to concentrate more on smoothing out the debt profile

At times over the past two years, the task of funding Swe-den's poblic debt - until recently one of the fastestwas an unenviable one as the lending markets began to wonder aloud whether the country could cope and interest rates ratcheted ever

But towards the end of last year, things changed. "Sud-denly we felt like bees flying in a field of many blossoms." recalls Mr Thomas Franzen. director-general of Riksgalds Kontoret, the national dabt

office, with e poetic flourish. What made the difference was a shift in sentiment among lenders who became persuaded that the Social Democratic government's tough fiscal medicine was half of 1995, re-emboldened by finally bringing the yawning the fiscal and macro-economic

budget deficit under control - and a healthy flush of growth in the economy, which expanded by 3 per cent in

The turning point came not a moment too soon. Sweden's central government borrowing requirement zoomed to almost SKr200bn in 1994, comfortably more than 10 per cent of gross domestic product. It epproached SKr150bn in 1995. As Sweden's crisis coincided

with worldwide turbulence in bond markets, the country's association with the volatile "high yielders" was doubly potent. "A lot of investors withdrew from the Swedish market," says Mr Franzen. interest rates climbed to giddy levels, with long bond yields at one point in early 1996 showing a spread of more than 400 points over benchmark German rates.

Mr Franzen says his office was helped over the crisis by two factors: a surge of bnying of Swedish paper by Japanese institutions and the local retail market, where Swedes were saving besvily after a borrowing hinge in the 1980s. And when western institutional investors came back onto the market in the second

outlook, Sweden's borrowing needs had begun to diminish significantly. As Mr Franzen suggests, there was suddenly plenty of sources available for funding. Latest estimates by the Riksgalds Kontoret see the horrowing requirement in 1996 dropping by SKr15bn compared to earlier estimates, to a SKr50bn-SKr60bn range, thanks to the rigour of the government's budget savings programme and higher-than-

- back on e downward path. Of this year's horrowing total, the deht office plans to borrow SEr20bn in foreign currency. Gross foreign currency borrowing this year will reach Skr75bn - of which SKr55hn has already been completed. The portion of the total debt beld in foreign currency has declined slightly from more than 30 per cent to

forecast tax revennes. The

total outstanding central gov-

erament debt at the end of

April stood at SKr1,370bn

29 per cent. On the hand front, the changing situation has also sbown considerabla benefits. For a start, yields have tumhied. At the time of writing. the yield on 10-year treasury bonds stood at just under 8.5 per cent, compared with more than 11 per cent e year ago.

The spread egainst German honds is down to 200 basis points and Mr Franzen says that this remains too big. The change in climate has allowed the debt office to show

its muscle in another way, however. It is placing an increasing amount of debi through index-linked bonds - something of a breakthrough for Sweden which in the 1970s and 1980s was one of Europe's most ioflation-addicted nations. Index-linked bonds, first introduced in 1994, accounted for SKr2bn of the SKrobn bond issues in April. The debt office has five different index-linked instruments ootstanding. The latest is a 24year bond paying an anoual conpon of 4 per cent

A sense of having weathered the storm is palpable among Riksgalds Kontoret officials. Now they are able to concentrate more on smoothing oot the debt profile, which contains a steep maturity peak at the end of the century. Bonds worth some SKr130hn will mature in 1998, with heavy commitments recurring through 2005. The debt office is working on switching a chunk of these commitments into new, longer, instruments - including index-linked

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